ITV plc preliminary results for the year ended 31st December 2010

– Transformation Plan gathers momentum –

- Good progress in rebuilding the ITV senior team and delivery on the first phase of the Transformation Plan
- Total external revenues up 10% to £2,064m (2009: £1,879m)
- ITV has outperformed the television advertising market by 1% up 16%
- EBITA before exceptional items has doubled to £408m (2009: £202m) driven by the strong recovery in the advertising market and the continued focus on reducing costs
- Adjusted earnings per share increased to 6.4p (2009: 1.8p)
- Net debt has reduced significantly to £188m (2009: £612m) providing a sound financial platform for the future
- ITV Studios profits have declined to £81m (2009: £91m) - emphasising the need for creative renewal already identified
- ITV Family advertising revenues are expected to be up by 12% in Q1 but comparatives become increasingly tough from Q2 onwards
- The Board intends to restore the payment of a dividend at the interim results in July 2011

Adam Crozier, ITV plc Chief Executive, said:

"Last year we set out a comprehensive five year plan for the transformation of ITV. In this first phase, our outperformance of the television advertising market - together with the actions taken to reduce the Group's cost base and the focus on cash generation – have delivered substantial debt reduction and a sound financial platform for the challenges ahead.

"But whilst the recovery in television advertising is clearly very helpful, it also serves to remind us just how volatile this market can be. That is why we remain fully focussed on delivering our five year Transformation Plan to ensure that we have a more balanced and robust business going forward.

"Our objective is to continue to outperform the TV advertising market, to invest in technology and our online capability, as well as our content business through the creative renewal of ITV Studios. We remain committed to our strategy of creating great content, delivering and exploiting it across multiple platforms and selling it internationally.

"We're still in the first phase of our transformation and making good progress, with a real momentum for change being built up within ITV. We have a new, talented top team in place and around a third of the wider leadership team has changed over the last few months. The organisation is becoming leaner and a further £15m of overhead and cost reduction is expected to be delivered this year.

"We remain cautious, and will continue to plan prudently, in terms of the economic outlook and its impact on the TV advertising market. Although ITV Family advertising revenue is expected to be up 12% in Q1 and 8% to 12% in April, the comparatives become increasingly tough as the year proceeds, and without the benefit of the Football World Cup this year.

"Given the improvement in our cash performance and balance sheet, the Board intends to renew the payment of a dividend at our interim results in 2011."

FULL YEAR RESULTS

Year ended 31 December (£ million)	**2010**	2009	Change
Group external revenue	**2,064**	1,879	185
Broadcasting & Online	**1,771**	1,543	228
ITV Studios	**293**	335	(42)
EBITA before exceptional items	**408**	202	206
Broadcasting & Online	**327**	111	216
ITV Studios	**81**	91	(10)
Adjusted profit before tax*	**321**	108	213
Adjusted earnings per share (EPS)*	**6.4p**	1.8p	4.6p

*Adjusted profit before tax and adjusted EPS remove the effect of exceptional items, impairment of acquired intangible assets, amortisation of intangible assets acquired through business combinations, financing cost adjustments, and prior period and other tax adjustments from the statutory numbers.

Financial position

Cash and cost management has remained a focus for 2010, with the delivery of £40m of cost efficiency savings. Improved profits and strong cash conversion has substantially reduced net debt at 31st December 2010 to £188m (31 December 2009: £612m). Profit to cash conversion is 127%, well ahead of our target of 90% profit to cash conversion on a rolling three year basis.

Broadcasting & Online

Broadcasting & Online revenues and profits increased significantly in 2010 reflecting the cyclical recovery in the television advertising market and tight controls of costs resulting in strong conversion into profits.

Despite a strong Autumn performance on screen, ITV1 share of viewing was down by 4% across 2010, while the digital channels increased their SOV by 11%. Overall, ITV Family SOV was down by 1%.

itv.com unique users rose to 10.2m (2009: 8.7m) while revenues increased to £28m (2009: £24m), however performance online remains subscale. With the arrival of the new team we are focussed on fixing itv.com – investing in both technology and ease of use - and on driving up our commercial performance online.

ITV Studios

ITV Studios revenues have declined year on year to £293m (2009: £335m). This is largely driven by falling international production revenue, which underlines the need already identified for creative renewal. Profits have fallen to £81m (2009: £91m) as margins remain under pressure and following the loss of some high margin commissions.

A complete overhaul of the ITV Studios management team has taken place with a new creative process developed to help ensure that we achieve the creative renewal of ITV Studios. ITV Studios' share of ITV1 original commissions increased from 50% to 53% in 2010, although internal revenues were flat at £261m (2009: £262m)

Adjusted earnings per share

Adjusted EPS has increased significantly reflecting the improved trading performance, lower adjusted financing costs and reduced adjusted effective tax rate.

Adjusted financing costs are lower as a result of the £146m of bonds bought back in the year. The adjusted effective tax rate of 23% is significantly lower than the statutory rate of UK corporation tax, which is expected to be maintained around this level for the next two years. This is primarily due to the utilisation of tax losses from earlier periods.

Pension

The pension deficit on an IAS19 basis stands at £313m (31 December 2009: £436m). The decrease was primarily driven by an increase in the value of scheme assets and the benefits from actions taken by ITV in the year, offset in part by a decrease in the discount rate applied to liabilities.

New management

A new top management team is in place and around a third of the senior leadership team has changed over the last few months. Our focus is on delivering the Transformation Plan and driving the cultural change needed to become a performance driven organisation.

OUTLOOK FOR 2011

- ITV Family advertising revenues are expected to be up by 12% in Q1 with the increase for April estimated at between 8% and 12%, however comparatives are increasingly tough as the year proceeds and we remain cautious on the broader economic outlook and its effect on the advertising market.
- ITV1 Network Programme Budget confirmed at around £800m.
- A further £15m reduction in costs and overheads has been identified to be delivered during the year.
- As previously identified, £25m is expected to be invested in online, content and digital channels.
- Capital expenditure in the year will increase to approximately £80m (2010: £28m), focussed on core business technology and the Manchester site move to MediaCity.
- The Board intends to declare the payment of a dividend with the interim results in July.

NOTES TO EDITORS

1.Operational summary

Broadcasting and Online performance indicators

12 Months to 31 December	**2010**	2009
ITV Family share of viewing	**22.9%**	23.1%
ITV1 share of viewing	**16.0%**	16.7%
ITV Family adult SOCI	**39.8%**	40.0%
ITV1 SOCI	**27.3%**	28.4%
ITV1 adult impacts	**237bn**	232bn
itv.com average monthly unique users	**10.2m**	8.7m
itv.com total cumulative video views	**234m**	215m
Long form video views	**129m**	72m

Share of viewing and share of commercial impact data is for the twelve months to 31 December 2010, compared to equivalent period in 2009, based on BARB / AdvanetEdge data. Share of viewing data is for individuals and SOCI data is for adults. ITV Family includes: ITV1, ITV2, ITV3, ITV4, CITV, ITV1 Breakfast, CITV Breakfast, Men&Motors and associated 'HD' and '+1' channels.

Average monthly unique users are based on Omniture and Nedstat data. Video views are based on internal Company and Nedstat data for itv.com.

2. Transformation Plan

Last August, ITV Chief Executive Adam Crozier unveiled a five-year Transformation Plan with three phases – fix, strengthen and grow and accelerate.

The objective is to become a lean ITV that can create world class content, executed across multiple platforms and sold around the world.

The plan is focused on four priorities:

- Create a new lean, creatively dynamic and fit-for-purpose organisation
- Maximise audience and revenue share from existing free-to-air broadcast business
- Drive new revenue streams by exploiting our content across multiple platforms, free and pay
- Build a strong international content business

3. Figures for ITV plc and market NAR are based on ITV estimates and current forecasts.

4. Adjusted profit and adjusted EPS remove the effect of exceptional items, impairment of acquired intangible assets, amortisation of intangible assets acquired through business combinations, financing cost adjustments and prior period and other tax adjustments from the statutory numbers.

5. Adjusted cash flow is defined as cash flow generated from operations before exceptional items, less cash related to the acquisition of property, plant and equipment and intangible assets

6. This announcement contains certain statements that are or may be forward-looking with respect to the financial condition, results or operations and business of ITV plc. By their nature forward-looking statements involve risk and uncertainty because they relate to events and depend on circumstances that will occur in the future. There are a number of factors that could cause actual results and developments to differ materially from those expressed or implied by such forward-looking statements. These factors include, but are not limited to (i) adverse changes to the current outlook for the UK television advertising market, (ii) adverse changes in tax laws and regulations, (iii) the risks associated with the introduction of new products and services, (iv) pricing, product and programme initiatives of competitors, including increased competition for programmes, (v) changes in technology or consumer demand, (vi) the termination or delay of key contracts, (vii) fluctuations in exchange rates and (viii) volatility in financial markets.

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Strategy & operations

A strategy for the future

by **Adam Crozier** Chief Executive

Transforming ITV

There is a great deal to do to transform ITV and there are no quick fixes. ITV has launched a three phase strategy to transform the business over the next five years focusing on our four strategic priorities...

1 Create a lean, creatively dynamic and fit-for-purpose organisation

2 Maximise audience and revenue share from existing free-to-air broadcast business

3 Drive new revenue streams by exploiting our content across multiple platforms, free and pay

4 Build a strong international content business

Overview of results

We are pleased to report a significantly improved financial performance in 2010 with total external revenues up 10% at £2,064 million. This was largely driven by the stronger than expected UK television advertising market and ITV's outperformance of that market.

The growth in advertising and ITV's continued focus on cost reduction fed through to substantially increased profits with adjusted earnings per share at 6.4 pence (2009: 1.8 pence). The decisive action taken on cash management has led to a significant reduction in our net debt position down from £612 million at the end of 2009 to £188 million at the end of 2010.

Whilst the recovery in the television advertising market is helpful, it shows how volatile the market is and our results show how ITV remains overly reliant on advertising revenue. Our Online revenues grew but remain subscale compared to our Broadcasting business and ITV Studios' revenues declined emphasising the need for creative renewal.

We face major ongoing challenges to rebalance the business and to ensure that in the long run we are fit to compete, which is why we have embarked on the five-year Transformation Plan to fundamentally change the Company.

ITV's significant challenges

The global media environment continues to change dramatically. Audiences have fragmented and free-to-air broadcasters have lost viewing share with the rapid rise of digital and pay TV. The boom in video viewing via the internet, and other video on demand services, has also contributed to a vast increase in consumer choice and seen advertising revenues diverted away from television. Broadcasters have been under pressure to reduce risk and buy proven formats. The winners from this trend have been format owners, particularly US studios.

ITV has not responded to the changing environment. In part this is because its organisational ineffectiveness and entrenched legacy culture limited our ability to respond to the challenges of a changing market place. The first phase of our Transformation Plan is therefore to 'fix' the business which remains our initial priority.

ITV has seen its core proposition of free-to-air broadcasting steadily eroded. ITV1's share of viewing and commercial impacts has gradually declined over many years. We have been weak on technology and our digital and platform strategy was underdeveloped. Our Online operations are subscale and until Q4 2010 we had no access to the pay TV market which is worth over £5 billion.

ITV Studios' creative content pipeline had depleted over time with no major new entertainment programme format created since 2006. This impacted our ability to sell programmes both in the UK and internationally. ITV Studios' share of ITV commissions has been falling for a number of years and a fragmented approach to rights ownership and management hindered our ability to exploit our content. We were slow to exploit our programme and channel brands outside of the traditional broadcast arena.

Transformation Plan

Adapting to this new media environment requires urgent change to ITV's strategy, management, culture and organisation. We have started to address the challenges we face but there are no quick fixes.

We launched a three-phase strategy in August 2010, to transform ITV over the next five years. Phase 1 is to Fix the Company so we are ready to compete; Phase 2 is to Strengthen and grow the business, investing on solid foundations and building platforms for growth, and Phase 3's focus is to Accelerate, driving performance and value.

The Transformation Plan has four strategic priorities which are covered over the following pages. In order to execute and deliver the plan, eight separate workstreams have been set up which map to the four priorities. Each workstream is sponsored by a member of the Management Board. We have set up a Transformation office, headed by Simon Pitts, Director of Strategy & Transformation, to coordinate and help drive forward each workstream.

We are less than 12 months into our five-year plan and have made some real progress in driving change throughout the organisation, but we are only at the start of the journey.

1 Create a lean, creatively dynamic and fit-for-purpose organisation

What do we want to achieve?

The very best out of our leadership, people, culture and creativity.

How are we going to achieve it?

In order to turn ITV into a lean, creatively dynamic and fit-for-purpose organisation a relentless pursuit of improvement needs to be undertaken at all levels of the business. Key to this strategy is the continued strengthening of the creative talent of the business.

To be a top class organisation requires top class people. This will be achieved by ensuring that we have the best possible leadership team who are able to operate in a seamless and agile manner, adapting quickly to change when needed.

It does not stop with the leadership team. Throughout the organisation we need to recruit the best people, implementing appropriate development programmes, with incentives around delivering our strategy. This will enable us to drive through the cultural change necessary to become a performance driven organisation, operating transparently with no silos.

It is vital that Broadcasting & Online and ITV Studios work closely together. This will help us to develop an integrated creative process with a focus on long-running returnable franchises and the ability for Total Value brand exploitation – extracting revenues from a brand across a variety of platforms and merchandise.

What progress have we made?

We have made some significant changes within the leadership of ITV.

The new Management Board is now in place with a number of new appointments: Kevin Lygo was appointed Managing Director of ITV Studios; Fru Hazlitt joined as Managing Director of ITV Commercial & Online; Paul Dale was recruited as Chief Technology Officer; Mary Fagan is Group Communication & Corporate Affairs Director and Simon Pitts has been internally promoted to become Director of Strategy & Transformation. Six out of the ten members of the Management Board are new and we now have the right skills from inside and outside the industry to deliver the strategy.

To complement this we have put in place new internal board structures for each division to facilitate change and speed up decision making within the business.

It is imperative that cultural change is driven throughout the business. Outside of the Management Board, there have also been significant people changes and around a third of the wider leadership team have changed. We have embarked on a development programme for the leadership team that will help drive changes down to all levels of the business. To facilitate this we held a number of employee roadshows around the country in 2010. All ITV employees were invited in order to share the new strategy and give them an opportunity to feed back their thoughts and concerns. Employee engagement measured in 2010 has improved from 65% in 2009 to 75%, a positive result but there is still some way to go.

The new creative process is now in place between Broadcasting & Online and ITV Studios and while it will take time to see the results of this onscreen, progress is being made – ITV Studios share of ITV1 Network spend on original commissions has increased from 50% in 2009 to 53% in 2010.

We continue to take steps to make the business fit for purpose. We are starting to identify where improvements in ITV's technological and management systems and processes can be made, but they will take time to implement and for the benefits to be realised. In December, we announced that, subject to planning permission, we will move the Company's Manchester base to MediaCityUK in Salford Quays and build a bespoke production centre for Coronation Street. The move is expected to complete in 2012/13. There is expected to be a significant increase in capital expenditure in 2011 associated with the new Manchester base and our investment in technology.

During 2010 targeted cost efficiencies of £40 million were delivered. In 2011 we will continue to focus on costs to ensure we have the appropriate cost base across the business and have identified a further £15 million of savings that are largely non-personnel related. However, there are increased costs associated with a number of the decisions we have made, such as increased transmission costs as a result of launching ITV1+1 and the digital HD channels on Sky.

While important progress is being made in Phase 1 of the Transformation Plan towards creating a lean, creatively dynamic and fit-for-purpose organisation, there is still a great deal to do to fix the business.

2 Maximise audience and revenue share from our existing free-to-air broadcast business

What do we want to achieve?

– Hold ITV Family viewing share by platform

– Strengthen the channel family

– A new approach to commissioning

– Outperform the market in ad sales

– Regulatory relief

How are we going to achieve it?

A key component in achieving our objective of maximising audience share from our existing free-to-air broadcast business is to hold ITV's viewing share across our family of channels.

In an increasingly fragmented market we must invest in quality programming and refresh the schedules to strengthen all of our channels.

Our focus will be on how we spend our programme budget more efficiently to at least maintain our share of viewing. We have announced ITV1's network programme budget will remain at around £800 million in 2011. This is a small reduction on the budget of £820 million in 2010, but this amount included the cost of the football World Cup. The key for us is investment in long-running returnable series, which also travel well internationally, particularly in entertainment and drama.

A new approach to commissioning will play a major part in achieving this. We recognise television is a long-term business and we need to move away from short-term slot filling into building long-running returnable franchises and brands. Commissioners will lead integrated business teams including Research and Development, Commercial Finance and Marketing. Commissioning decisions will be based on a wider range of factors than has been the case in the past. There will be emphasis on a Total Value approach and a broader commercial input to key commissioning decisions.

In order to maximise revenues from the existing free-to-air broadcast business, and to continue to outperform the television advertising market, we need to focus on delivering maximum value for our clients. We must offer creative and collaborative advertiser friendly solutions across our family of channels and platforms and offer a schedule that delivers what advertisers want.

Our pursuit of greater regulatory relief will continue but we must focus on the factors that are within our control as significant regulatory change could well take time to deliver.

What progress have we made?

ITV remains highly dependent on the television advertising market and therefore we must ensure that we maximise our viewing and our share of advertising revenues.

In 2010 ITV outperformed the television advertising market by 1%, with the ITV Family of channels' share of total television advertising revenues increasing from 44.7% to 45.1%. ITV's strongest performance year-on-year was in June, due to the increased demand for advertising on ITV1 around the Football World Cup.

Whilst we need to outperform our competitors, we also need to balance unpredictable linear television advertising with other revenue streams across multiple platforms. Despite significant growth in the television advertising market in 2010, it is still only back to 2006 levels. We have restructured the sales team and appointed a new Director of Television Sales, Kelly Williams, and Director of Multiplatform and Partnerships, Simon Daglish. We now have the right team in place to deliver creative and commercial advertiser solutions not only in television but across all our platforms.

We had some very strong programmes in 2010, for example X Factor, Britain's Got Talent, Coronation Street, Emmerdale and Downton Abbey, the best performing new drama on any channel in the year. However, the schedule as a whole was not consistent throughout the year and we remain reliant on a number of very successful key shows.

The share of viewing for the family was down 1%, with ITV1's share of viewing down by 4% and the Family of digital channels up by 11%. ITV family's share of commercial impacts (SOCI) in 2010 was broadly flat compared to the previous year at 39.8%. Whilst in 2010 ITV1 adult SOCI was down 4%, in the key demographics of ABC1 adults and 16–34 year-old adults, ITV1's SOCI actually increased resulting in a significantly improved audience profile for advertisers. This has resulted in an aggregate Contract Rights Renewal (CRR) ratchet of over 99%. As this ratchet is used as a basis for 2011 negotiations, it gives us confidence in our ability to outperform the television advertising market again this year.

Other programme successes in 2010 included broadcasting five out of the top ten new dramas, including DCI Banks, The Little House and Downton Abbey. The X Factor achieved its best rating episode ever for the series final with 19.8 million viewers. The I'm A Celebrity…Get Me Out of Here! final attracted its highest audience in six years. Coronation Street celebrated its 50th anniversary with the live episode and in the same week it achieved its best episode ratings since February 2004. The 2010 Football World Cup performed well for ITV1 with the England vs. Algeria match achieving the highest peak audience of the year with 21.3 million and a 71% viewing share. ITV also aired the historic first Election debate, attracting an audience of 9.7 million. However, certain slots in the schedule have been disappointing. Daybreak has not performed as we would have hoped and the 9pm slot, particularly on a Friday, remains a challenge for ITV.

In January 2011 we launched ITV1+1, a one hour time shifted version of our flagship channel, which followed the launch of ITV1 HD in 2010. This has given our viewers more choice and flexibility with their viewing. So far in 2011 ITV1+1 has accounted for 2.5% of ITV1 impacts, which we expect to grow in time.

The digital channels have performed very well, particularly ITV3 which saw its SOCI increase by 24%. ITV2 and ITV4 also increased their SOCI by 3% and 17% respectively but further investment is planned to give them a clearer brand identity. This strong performance helped to hold ITV Family SOCI virtually flat despite the decline in ITV1 SOCI.

Recognising that television is a long-term business, we need to determine the vision of our schedule several years in advance while maintaining some flexibility. Peter Fincham and his team have now agreed our vision for ITV1 out to 2013 and will work with independent producers and ITV Studios to deliver it. In 2010 we announced a three-year deal for the X Factor and Britain's Got Talent with Syco and Fremantle Media, which secures two of our most popular programmes until 2013. We have also secured the rights to the Rugby World Cup for 2011 and 2015. Our approach to the provision of news on ITV is also currently being reviewed.

Our strategy is not dependent on regulatory relief, but we have made some progress in this area and we will continue to push for liberalisation. During the year Ofcom relaxed certain airtime sales rules relating to the requirement of commercial broadcasters to sell all of their advertising inventory as well as the bundling of airtime sales packages across several channels. While we operate under CRR, these have limited impact on ITV.

In October Ofcom completed its review of ITV's licence payments and concluded that Channel 3 payments should be cut to almost zero, in recognition of the cost of delivering public service obligations such as news and current affairs. In December Ofcom confirmed the new rules on product placement that came into effect on 28 February 2011. The new rules contain restrictions on the type of products that can be placed and in which programmes they can be placed. These restrictions will impact our ability to exploit this new revenue stream.

During 2010 the House of Lords began a review of the CRR mechanism and concluded in February 2011 that the CRR rules on the sale of advertising are overly detrimental to ITV and should be abolished. It also concluded that the number of advertising minutes per hour should be harmonised down to an average of seven minutes per hour on all commercial channels, subject to further research by Ofcom.

We are encouraged by the House of Lords' recommendations and that the Government appears to be increasingly pro deregulation.

3 Drive new revenue streams by exploiting our content across multiple platforms, free and pay

What do we want to achieve?

– Enter pay TV

– Transform itv.com

– Own customer relationships on connected platforms

– Total Value approach to brand exploitation

– Build addressable advertising capabilities

How are we going to achieve it?

We need to develop a channel portfolio that is more balanced between pay and free television, driving forward sponsorship and product placement and developing new revenue streams through building our programme brands and platform offerings.

itv.com needs to be transformed. Navigation and the viewing experience will be improved to cultivate a richer, deeper relationship between ITV and its viewers. In addition, we will maximise the reach of our video on demand service, ITV Player, making the service available on new platforms. We will also undertake pay trials on itv.com and are developing a payment mechanism to enable us to do this.

We will continue to support and grow the Freeview and Freesat platforms where ITV channels perform strongly. Part of our platform strategy will also be the launch of YouView, the next generation of Freeview. This will allow viewers to navigate seamlessly between their favourite Freeview channels and the most popular on demand content on ITV Player and the BBC iPlayer, subscription free.

Growing revenues from the SDN business, which operates one of the six digital terrestrial multiplex licences in the UK that make up Freeview, also remains a focus.

In the past we have not exploited the full value of our programming. With our new Total Value approach to programme commissioning and brand exploitation, we intend to maximise the lifetime revenues from our strongest brands.

As explained earlier we have restructured the sales team to ensure we have the right team in place to offer creative advertising solutions and drive revenues across all our platforms.

What progress have we made?

In August we announced our first move into pay television, with the digital channels ITV2, 3 and 4 HD launching behind the Sky paywall in autumn 2010.

This is a three-year deal and is profitable for ITV from the outset, but it is only a small first step into pay television and it does not enable us to own the customer relationship directly. Developing a pay strategy for the future is a key part of our eight workstreams and we have resourced it accordingly.

Online revenues, excluding Friends Reunited, increased in 2010 by 17% to £28 million. While this is a good performance it is off a very low base and Online continues to be subscale compared to our Broadcasting business. Operationally Online has made progress with unique users averaging 10.2 million per month in 2010, up 17% year-on-year, and more valuable long form viewing making up an increasing proportion of it. Video views totalled 234 million which was up 9% year-on-year. Long form video views were up 79% year-on-year to 129 million, now making up 55% of the total video views on itv.com.

However, itv.com is still not currently fit-for-purpose with a poor navigation and content experience. At the end of 2010 Robin Pembrooke joined ITV as Managing Director of Online and On Demand, and with his senior team now in place, work has started on improving the site. The Online vision for 2011 has been agreed, as has the necessary investment required.

With regards to platforms we have successfully incorporated YouView as a seven-way joint venture in September. Though the project will not launch to consumers until early 2012, the focus is on getting the final proposition right for viewers and advertisers. ITV's part-owned platforms, Freeview and Freesat, have also performed well and are now used by 11 million UK homes as their primary source of television.

At the end of 2010 we launched ITV Player on the PS3, and we are now working on plans to launch ITV Player on Freesat and YouView. Meanwhile SDN continues to grow its revenues, and in 2010 it agreed three new contracts, including the multiple videostream contract with Channel 5.

We have agreed the initial key brands that will be the focus of our Total Value exploitation, including Coronation Street, This Morning and Dancing on Ice. These are not the only brands where we will look to create more value, but we will develop our approach on these brands and then roll-out more fully where appropriate across our large catalogue. For example, we have already agreed a joint two-year broadcast deal and a five-year commercial deal with Alan Titchmarsh for his daytime chat show and peak programming, as well as a merchandising deal.

4 Build a strong international content business

What do we want to achieve?

– Transform internal creative capability

– Focus on high value returnable series on and off ITV

– Acquire attractive third party content

– Make our shows in more countries

– Build international distribution scale

How are we going to achieve it?

Transforming the internal creative capability of the business, to ensure we have the very best team in place, lies at the heart of our goal to build ITV into a strong international content business.

We need creative leadership with the ability to attract talent throughout the division. We will develop a mixed model to recruit and manage on and off-screen talent including partnerships.

As we build the right team and develop the internal creative processes, we will focus on developing high value returnable series for both the ITV channels and third-party broadcasters, in the UK and internationally. We will concentrate on developing ideas that work not only in the UK but also internationally to exploit fully all possible revenue streams. Entertainment and drama formats travel best internationally and ITV has strength in these areas, for example I'm A Celebrity, Dancing on Ice and Lewis. Factual entertainment series also travel well and we have seen success with programmes such as Four Weddings, Coach Trip and Come Dine With Me.

The key to the success of the content business is developing, or having a significant stake in, the intellectual property rights for the content that we show on our screens and sell to other broadcasters. We must own the rights to programmes and formats so that we can exploit the long tail value of them. In the shorter term we may look to acquire rights to distribute internationally with our own content to help drive revenues while we develop our own pipeline.

To have the strongest possible international content business we need to be making and distributing our programmes in as many territories as possible. The UK is core to this but we need an effective distribution and production network and access to ideas and formats across geographies. Over the next five years we will increase our number of production bases to ensure we have a presence in key global territories. We can enter new markets organically, as we did in France in early 2010 for less than £1 million or we may invest or partner. In addition to developed markets we will also look for growth in developing markets.

What progress have we made?

We now have a new creative leadership team in place following the appointment of Kevin Lygo as Managing Director of ITV Studios, Denise O'Donoghue as Managing Director ITV Studios UK and Maria Kyriacou as Managing Director of ITV Studios Global Entertainment.

However, we still need to rebuild the creative talent team to ensure that we have the right people across the business and this process is underway.

In 2010 total ITV Studios external revenues and profits were down. The market was tough with broadcasters derisking, but ITV's ability to sell programmes was also impacted by its depleted pipeline. Internal revenues were broadly flat, but ITV Studios share of ITV1 network spend increased from 50% to 53%.

Our creative pipeline needs strengthening as we have not created an international entertainment hit since Dancing on Ice in 2006. This is obviously inhibiting our ability to sell both in the UK and internationally. However, a number of ITV Studios dramas will be on ITV1 in 2011, including Vera and Marchlands, and new entertainment pilots are being considered by the ITV Network. While this is promising, it is only a start and refreshing the creative pipeline is key for ITV going forward. As a result we have significantly increased the development budget for 2011.

We need to maintain the ongoing success of our soaps and other popular long running programmes. In 2010 we invested in new HD studios in Leeds which secured the future of the production of Emmerdale there.

We announced that we will be moving the Company's Manchester base to MediaCityUK in Salford Quays in 2012 and that we will be building a high-tech production and studio centre for Coronation Street at Trafford Wharf, adjacent to the main MediaCityUK site. The total cost of this is expected to be less than £35 million and once we have vacated the current Manchester site we will look to maximise its value.

We already have some great examples of formats which we are exploiting in multiple territories. Come Dine With Me, which we make for Channel 4 in the UK, is produced in 28 countries, with ITV producing the versions in six of these, and Four Weddings that we make for Living in the UK is broadcast in 15 countries, and produced or co-produced by ITV in eight. We have also recently agreed a US production deal for one of our key daytime programmes, Jeremy Kyle, and we have sold a number of other shows to Latin America.

Following the opening of our Spanish office in 2009 we opened an office in France in early 2010. Both of these territories won their first commissions in 2010, May the Best House Win in Spain and Coach Trip in France. We now have production bases in seven countries.

2011 and beyond

We are less than 12 months into our five-year Transformation Plan and are already making significant progress. However, there is still a great deal to do and many challenges we must confront to ensure that in the long-term we are fit to compete.

Over the next 12 months we need to maintain and build on the momentum of change that we have created.

While you will see rapid progress across all our four priorities our focus will be on transforming itv.com, on strengthening our creative talent and creative pipeline and improving our technology. We expect to invest £25 million of our three-year £75 million investment fund in 2011 – £7 million in Online, £12 million in Content and £6 million for Digital channels in our development fund.

Our capital expenditure will more than double in 2011 to approximately £80 million as we upgrade technology across the business and invest in future-proofing our Soaps, in particular the new site for Coronation Street. While we are making significant investments in the business we will still maintain our focus on cost management to ensure we have the right cost across the organisation. We have identified £15 million of cost savings that will be delivered in 2011.

Creating a lean, creatively dynamic and fit-for-purpose organisation

We will continue to recruit the right creative talent across the organisation. There is a new creative process between Broadcasting and ITV Studios, with these businesses working more closely together. We are creating a high performance culture that aligns incentives throughout the Company to reward creative and commercial performance.

Maximise audience and revenue share from our existing free-to-air broadcast business

In 2011 we aim to again outperform the television advertising market and to maintain the ITV Family share of viewing. To do this we must improve the consistency of the schedule across the year. We are launching many new programmes, including dramas Marchlands, Vera and Monroe as well as the new documentary strand Perspectives and authored factual series featuring Caroline Quentin and Martin Clunes.

Some of our most successful programmes return in 2011 including the X Factor, Britain's Got Talent, I'm A Celebrity and Downton Abbey as well as Coronation Street and Emmerdale. Top sporting events such as the Rugby World Cup, Champions League, the FA Cup and Euro 2012 qualifiers are also on ITV this year.

Drive new revenue streams by exploiting our content across multiple platforms, free and pay

To help drive new revenue streams a multiplatform commissioning structure will be put in place. We are developing our product placement offerings and will launch Total Value exploitation across a number of key brands. We will deliver an improved and redesigned itv.com and start to undertake pay trials online. YouView will commence consumer trials in late 2011 and is planned to be fully launched in early 2012. All these initiatives will take time to make an impact and we are unlikely to receive the benefits until 2012.

Build a strong international content business

Building a strong international content business remains a key priority and we will increase investment in programme development and pilots to create returnable commercial franchises. We are rebuilding the senior talent team and are looking at new ways of working with talent and production companies as well as considering the potential for partnerships and investments across the international ITV network.

Outlook

We have a great deal still to do and we will measure the success of the Transformation Plan by both delivery and execution. We have developed a new set of key performance indicators that align our performance and accountability to the Transformation Plan.

As we enter 2011, ITV is in a much stronger position financially which enables us to invest in the business and make the right decisions for the long-term future of ITV.

The television advertising market has performed strongly so far in 2011. In Q1 ITV net advertising revenue (NAR) is expected to be up 12% and initial forecasts for April is to be up between 8% and 12%. However, the comparatives we face are becoming increasingly tough. The outlook into the rest of 2011 remains uncertain and we are cautious about the broader economic outlook and its impact on our market. We will maintain our focus on cash and costs in 2011 and on delivering the Transformation Plan to secure the long-term stability of the Company.

Adam Crozier Chief Executive

Financial and performance review

by **Ian Griffiths** Group Finance Director

Key Financials

	2010 £m	2009 £m	Change £m
External revenue	**2,064**	1,879	185
EBITA before exceptional items	**408**	202	206
Adjusted earnings per share ('EPS')	**6.4p**	1.8p	4.6p
Net debt	**(188)**	(612)	424

Overview

ITV has delivered a strong financial performance in 2010 with external revenues and profits significantly up on prior year. This has been driven largely by the strong cyclical recovery in the television advertising market and ITV's outperformance of that market. Despite this cyclical recovery, ITV has maintained its focus on cost control and cash management. Costs have been reduced and increased revenues have been effectively converted into increased profits. The continued focus on cash management, alongside improved profits, has led to a significant reduction in net debt.

ITV is now in a substantially stronger financial position than two years ago, but this does not disguise the ongoing challenges that the business faces.

The following review is focused on adjusted results as, in management's view, these show more meaningfully the business performance of the Group in a consistent manner and reflect how the business is managed and measured on a daily basis. We have also restructured the notes to the accounts, to present a clearer view of our financial performance and financial position as at 31 December 2010.

External revenue and EBITA before exceptional items

Total revenue for the year ended 31 December 2010 was 10% higher at £2,064 million (2009: £1,879 million). The improvement in Net Advertising Revenue ('NAR'), driven by the strong television advertising market, has been partially offset by a 13% reduction in external revenue in ITV Studios, mainly from international productions.

The increase in NAR is the principal reason that EBITA before exceptional items more than doubled to £408 million (2009: £202 million). Cost savings of £60 million have been made (£40 million of efficiency savings and £20 million from the reduction in the licence fee) which further boosted profitability, but these have been offset by increased schedule costs, increased transmission costs to support the launch of the HD channels and YouView, and reduced ITV Studios profits.

The improved EBITA before exceptional items has driven the increase in adjusted EPS to 6.4p (2009: 1.8p).

Net debt

Cash management has remained a key focus in 2010, with net debt reducing from £612 million at 31 December 2009 to £188 million at 31 December 2010.

Adjusted cash flow of £517 million (2009: £345 million) has increased this year not only as a result of improved profits but also from another year of strong 'profit to cash' conversion. The continued focus on cash resulted in a 'profit to cash' ratio in 2010 of 127% (2009: 171%) as we continued to reduce our stock levels and manage working capital tightly.

Aside from adjusted cash flow, £69 million was raised from the sale of Friends Reunited and Screenvision US. The cash costs of operating exceptional items in 2010 mainly relate to items provided for in previous years, such as the cash costs which underpin the efficiency savings delivered over the past two years. The return to corporation tax payments in 2010 is a consequence of improved profitability.

Broadcasting & Online

Broadcasting & Online revenues

	2010 £m	2009 £m	Change £m
Net Advertising Revenue ('NAR')	1,496	1,291	205
Broadcast sponsorship	60	59	1
Minority revenue	54	47	7
SDN external revenues	43	40	3
itv.com	28	24	4
Media sales, PRS and other income	90	82	8
Total Broadcasting & Online revenue	1,771	1,543	228
Total schedule costs	(1,023)	(1,006)	(17)
Other costs	(421)	(426)	5
Total Broadcasting & Online EBITA before exceptional items	327	111	216

The year-on-year changes in the Broadcasting & Online segment have been driven by the television advertising market, resulting in a £205 million improvement in NAR to £1,496 million (2009: £1,291 million). The television advertising market was up 15% in the year and ITV has outperformed the market once again with ITV Family revenue up 16%. ITV's share of broadcast, at 45.1%, was up 0.4 share points on last year.

Of the £205 million increase in total ITV NAR, the improvement in the television advertising market accounted for £191 million and the increase in ITV's share is worth £14 million. ITV has outperformed the television advertising market for the past three years, as we continue to deliver the big audiences and brands that are most demanded by our advertisers. This market outperformance was achieved despite a 5% decline in ITV1 SOCI in 2009 compared to 2008; under the Contract Rights Renewal remedy, advertisers are entitled to reduce their advertising share commitment to ITV1 in proportion to the decline in ITV1's SOCI in the previous year.

The rate of television advertising market growth of 15% has outstripped the 6% rise in the total market of commercial impacts, with the result that there has been some inflation of pricing compared to the prior year, reversing some of the deflation of earlier years. Television advertising, however, continues to offer value for money given its reach and 2010 has seen television take share from other media. Over the year, the total radio advertising market grew by 4%, internet by 11%, and press declined by 1%; these all compare to television, which grew by 15%.

Broadcast sponsorship income was broadly flat at £60 million (2009: £59 million). Although closely related to advertising, sponsorship tends to be committed under longer term contracts which can mitigate the impact of short-term movements in the advertising market.

Minority revenues comprise ITV Network programme sales to Channel 3 licences not owned by ITV (STV, UTV & Channel). These revenues increased by £7 million to £54 million (2009: £47 million) due to the higher network programme budget, and fewer programmes being subject to an opt out claim than in 2009.

SDN, which operates one of the six digital terrestrial multiplex licences in the UK that make up Freeview, grew external revenues by £3 million to £43 million (2009: £40 million). In 2010 SDN agreed three new contracts, including the multi videostream deal with Channel 5. As a result of these new contracts we expect to continue to grow revenues from the SDN business in 2011.

The itv.com revenues, excluding Friends Reunited, were up 17% compared to last year, albeit off a low base. Unique users were up 17% and video views up 9%, with long form viewing, which is more valuable to advertisers, making up an increased proportion of total video views. This, combined with the strong online advertising market, resulted in the increase in itv.com revenues.

Media sales, PRS and other income has grown and includes premium rate telephony services, airtime sales on behalf of third parties, interactive transactions associated with ITV and our first steps into pay television.

Total ITV schedule costs increased by £17 million in 2010 to £1,023 million (2009: £1,006 million). The increase is principally due to the inclusion of the football World Cup.

Other Broadcasting & Online costs of £421 million (2009: £426 million) include industry and regulatory costs, as well as staff and overhead costs. The year-on-year decline is mainly from the delivery of cost savings and lower licence fees. There has been an increase in transmission costs, mainly due to the launch of the HD channels and costs associated with YouView.

A review of Channel 3 licence fees resulted in a £20 million saving as Ofcom recognised the cost of delivering public service obligations such as news and current affairs and adjusted the regional broadcasting licence fees accordingly.

ITV Studios

	2010 £m	2009 £m	Change £m
UK production and resources	**64**	71	(7)
International production	**106**	138	(32)
Distribution and exploitation	**123**	126	(3)
Total external revenue	**293**	335	(42)
Original supply to ITV	**261**	262	(1)
Total revenue	**554**	597	(43)
Total costs	**(473)**	(506)	33
Total ITV Studios EBITA before exceptional items	**81**	91	(10)

ITV Studios includes original productions for the UK and international markets, the distribution and exploitation of internally generated and acquired rights, and studios and facilities revenue. ITV Studios' creative content pipeline has depleted over time which, coupled with an environment where broadcasters are taking less risk with new content and budgets are still relatively tight, has impacted ITV's ability to sell programmes both in the UK and internationally. This highlights the need for creative renewal.

UK production and resources external revenue (for other UK broadcasters) has decreased by 10% to £64 million (2009: £71 million), and the number of external hours produced have also reduced by 10%. Programmes such as The Street and Animal Cops did not return, but these were partially offset by the growth of programmes such as Coach Trip and Four Weddings.

International production revenues reduced by 23% to £106 million (2009: £138 million). This was largely driven by I'm A Celebrity where there has not been any production in 2010 in the USA, Germany or Sweden; nothing of scale replaced these. This is reflected in the total number of hours produced internationally which reduced by 11% in 2010 compared to 2009.

Distribution and exploitation sales were down by 2% to £123 million (2009: £126 million). Television sales revenues held up well on the back of strong drama sales, but were offset by lower co-production revenues. Home Entertainment revenues, primarily DVD, remain under pressure, particularly in the UK.

Original supply to ITV channels is not included in reported ITV plc consolidated revenue as it represents an internal programming cost of sale. This internal supply is broadly flat at £261 million (2009: £262 million) as programmes delivered in 2009 such as Heartbeat and The Royal did not recur, but there were new programmes such as Popstar to Opera Star and The Chase in 2010.

ITV Studios' cost base has reduced by £33 million to £473 million (2009: £506 million). Most of the costs in the production business are variable and linked to revenue. The fixed costs have been reduced as part of the ongoing challenge to the cost base and those savings have helped maintain overall margins of 15%.

Exceptional items

Operating exceptional items

Income/(cost)	**2010 £m**	2009 £m
Reorganisation and restructuring	**(17)**	(40)
Onerous contract provision	**1**	(1)
Onerous property provision	**7**	(14)
Pension scheme changes	**28**	110
Kangaroo closure costs	**–**	(2)
Total operating exceptional items	**19**	53

Net operating exceptional income in the year was £19 million (2009: £53 million).

These include £17 million of reorganisation and restructuring costs in relation to cost savings that have been delivered. There was a £7 million credit to onerous property provisions following the successful subletting of some excess space and consolidation of London offices.

The pension exceptional credit relates to pension scheme initiatives undertaken in the year to reduce the pension liability. Further details are included in section 3.6 of the financial statements.

Non-operating exceptional items

Total non-operating exceptional items are £nil (2009: cost of £73 million). A £4 million gain (2009: £51 million loss) on sale and impairment of subsidiaries and investments, principally relating to the sale of Screenvision US, was offset by a £4 million (2009: £22 million) loss on sale and impairment of non-current assets.

Net financing costs

Income/(cost)	**2010 £m**	2009 £m
Financing costs directly attributable to bonds	**(59)**	(74)
Cash-related net financing income	**1**	1
Cash-related financing costs	**(58)**	(73)
Amortisation of bonds	**(11)**	(6)
Adjusted financing costs	**(69)**	(79)
Mark-to-market on swaps and foreign exchange	**5**	(7)
Imputed pension interest	**(13)**	(15)
Other net financing income	**2**	10
Net financing costs	**(75)**	(91)

The cash-related financing costs of £58 million (2009: £73 million) are primarily the interest costs relating to ITV's bond debt, which have reduced significantly year-on-year, mainly due to £146 million of debt repurchases. Cash-related net financing income remains low, despite the increasing cash balances, as most of the cash reserves are held on short term deposit with low interest rates.

Amortisation of bonds is non-cash in the short term but will result in a cash payment on settlement. This principally relates to the 2014 Eurobond, 2015 Bond tap and 2016 Convertible Bond.

Adjusted financing costs are used to reflect the controllable interest costs of ITV's net debt. The principal differences between the reported net financing costs and adjusted financing costs relate to mark-to-market movements on swaps and foreign exchange on bonds, which are volatile and unrealised within the year, and the imputed pension interest.

The £5 million gain (2009: £7 million charge) relating to mark-to-market on swaps and foreign exchange on bonds is as a result of decreases in the implied interest rates at 31 December 2010 compared to 31 December 2009.

Other net financing income includes the unwind of the amortised cost adjustment (as described in note 4.1) and the net losses from bond buy-backs.

Tax

The total reported tax charge of £16 million (2009: credit of £69 million) results in an effective tax rate significantly lower than the statutory rate of tax. This is primarily due to the recognition of a deferred tax asset of £68 million in respect of tax losses not previously recognised. The deferred tax asset is being recognised as the Group is making sufficient taxable profits to be able to utilise these brought forward tax losses.

Corporation tax paid during the year of £23 million arises as a result of the return to profitability of the Group during the year, partially offset by utilisation of tax losses and pension contributions. The significant initiatives made towards addressing the pension deficit have resulted in tax relief for the Group.

Taking the brought forward losses and pension relief into account the Group should pay a relatively low level of cash tax compared to the statutory charge over the next two to three years. The timing of these deductions does not effect the statutory tax charge due to the deferred tax impact, which is recognised in full in the year.

The adjusted tax rate for adjusted profits is lower than the standard tax rate as the utilisation of losses is in excess of normal disallowable costs:

	2010 £m	2009 £m
Profit before tax as reported	**286**	25
Operating exceptional items (net)	**(19)**	(53)
Amortisation and impairment of intangible assets*	**48**	51
Non-operating exceptional items	**–**	73
Adjustments to net financing costs	**6**	12
Adjusted profit before tax	**321**	108

	2010 £m	2009 £m
Tax (charge)/credit as reported	**(16)**	69
Net charge for exceptional and other items	**5**	21
Credit in respect of amortisation and impairment of intangible assets*	**(13)**	(14)
Credit in respect of adjustments to net financing costs	**(2)**	(3)
Credit in respect of prior period items	**–**	(82)
Other tax adjustments	**(47)**	(26)
Adjusted tax charge	**(73)**	(35)
Adjusted rate of tax	**23%**	32%

*Amortisation of intangible assets arising from business combinations.

The purpose of presenting an adjusted tax charge is to more closely reflect the expected cash tax in respect of the current year's profit before tax. The Group adjusts its reported tax charge for exceptional items and material or non-recurring items, including amortisation of intangibles, adjustments to net financing costs and certain tax adjustments. In 2010 the other adjustments of £47 million primarily represents the deferred tax benefit of tax losses available for use in future years. These losses are expected to be utilised over the next two to three years and as a result the adjusted tax rate in that period is expected to be lower than the statutory rate.

Earnings per share

Adjusted earnings per share is 6.4 pence (2009: 1.8 pence). Basic earnings per share is 6.9 pence (2009: 2.3 pence).

Reconciliation between reported and adjusted earnings

	Reported £m	Adjustments £m	Adjusted £m
EBITA before exceptional items	408	–	408
Exceptional items	19	(19)	–
Amortisation and impairment	(63)	48	(15)
Financing costs	(75)	6	(69)
JVs and associates	(3)	–	(3)
Profit before tax	286	35	321
Tax	(16)	(57)	(73)
Profit after tax	**270**	**(22)**	**248**
Non-controlling interests	(1)	–	(1)
Earnings	**269**	**(22)**	**247**
Number of shares	3,884		3,884
Earnings per share	**6.9p**		**6.4p**

The adjustments shown above, such as exceptional items, remove the impact of those items that, in management's view, do not show the performance of the business in a consistent manner and do not reflect how the business is managed and measured on a daily basis.

Amortisation of intangible assets acquired through business combinations is not included within adjusted earnings. Amortisation of software licences and development is included as management consider these assets to be core to supporting the operations of the business.

The tax and financing costs sections of this review explain the principal adjustments to these balances.

Dividend

The Board intends to restore payment of a dividend at the interim results in July 2011.

Disposals and assets held for sale

The Group continues to dispose of non-core assets. Two businesses, Friends Reunited and the 50% interest in Screenvision US, were sold for a net consideration of £69 million. Properties at Bristol and Birmingham were sold for a total consideration of £7 million.

The Group continues to actively market for sale its 50% interest in the joint venture Screenvision Europe and its surplus properties.

Cash flow, working capital management and net debt

Cash flow and working capital management

With profits and cash flows overly dependent on the volatile television advertising market, it is important that ITV manages its cash and working capital tightly. 2010 was another good year in this regard, with 127% 'profit to cash' conversion being delivered, well ahead of our benchmark of 90% over a rolling 3 year period. It will be difficult to repeat this level of 'profit to cash' conversion in 2011, primarily because our capital expenditure is rising and programme rights and other inventory are now reduced to more normalised levels.

	2010 £m	2009 (restated) £m
EBITA* ('profit')	408	202
Decrease in programme rights and other		
inventory and distribution rights	108	125
(Increase)/decrease in receivables	(8)	11
Decrease in payables	(1)	(15)
Working capital movement	99	121
Depreciation	30	38
Share-based compensation	8	11
Cash flow generated from operations*	545	372
Acquisition of property, plant and equipment and intangible assets	(28)	(27)
Adjusted cash flow	517	345
'Profit to cash' ratio	127%	171%

*Before exceptional items

2009 has been restated to include cash spend on the acquisition of intangible assets, since this is core to supporting the operations of the business

Liquidity risk

The Group has a high degree of operational gearing and is exposed to the economic cycle. Between 2005 and 2009 ITV's profitability declined as the economy weakened and volatile television advertising revenues fell. This resulted in a lowering of ITV's credit ratings by Standard & Poors, Fitch and Moodys respectively from investment grade (BBB-/BBB-/Baa3) to sub investment grade (B+/BB-/B1). However, with the upturn in television advertising revenues in 2010 combined with good cash and cost control, these pressures have been partially eased. Although still sub investment grade, in May 2010 Standard & Poors revised ITV's credit ratings outlook from Negative to Stable (B+) and then put it on 'credit watch positive' in January 2011. In August 2010 Fitch and Moodys both increased ITV's credit ratings by one notch to BB and Ba3 respectively.

Funding

ITV is aware of the perceived inefficiency of holding £860 million of cash and cash equivalents and over £1 billion of gross debt, but it is important to note the speed at which the net debt has reduced over the past two years. The extent of decline of the television advertising market in 2008 and 2009, and then the subsequent recovery in 2010, was unexpected. This recovery, combined with tight cash control, has allowed net debt to reduce significantly over two years from £730 million at 31 December 2008 to £188 million at 31 December 2010. In addition to net debt of £188 million at 31 December 2010, the Group also has an IAS 19 Pension Deficit of £313 million.

In 2010 ITV bought back €63 million (£54 million) nominal of the 2011 bonds, £42 million nominal of 2015 bonds and repaid the £50 million May 2013 loan. As at 31 December 2010, ITV's net sterling position after the impact of cross currency swaps against the remaining €54 million 2011 Eurobond is a receivable of £16 million. This receivable has arisen due to large positive swap values arising from favourable currency movements; when ITV exchanged or bought back these series of bonds it was more efficient to enter into new swaps to protect this position rather than terminate existing swaps.

In October 2010 ITV increased the size of its undrawn, covenant free bilateral bank facility secured on advertising receivables from £75 million to £125 million and the maturity of this facility was extended from March 2013 to September 2015. This facility remains undrawn.

ITV is financed using debt instruments with a range of maturities. Borrowings at 31 December 2010 (net of currency hedges and secured gilts) are repayable as follows:

Amount repayable	£m	Maturity
€54 million Eurobond*	(16)	October 2011
£110 million Eurobond	110	March 2013
€188 million Eurobond*	126	June 2014
£383 million Eurobond	383	October 2015
£135 million Convertible bond	135	November 2016
£250 million Eurobond	250	January 2017
£200 million bank loan**	62	March 2019
Finance leases	61	Various
Total repayable	**1,111**	

* Net of cross currency swaps.

**Net of £138 million (nominal) Gilts secured against the loan.

At 31 December 2010 ITV had £860 million of cash and cash equivalents. This figure includes £89 million of cash equivalents whose use is restricted to finance lease commitments and unfunded pension commitments. Cash and cash equivalents also include £47 million held principally in overseas and part owned subsidiaries.

As explained above, steps have been taken to repurchase some of the more expensive debt. The remaining debt now held is not expensive given our credit rating (at an average gross cost of debt of 7%), is an appropriate mix of medium to long-term debt and has no financial covenants. As ITV drives forward the Transformation Plan it is also important that some flexibility is maintained to invest in the business.

Pensions

Reducing pension risk and uncertainty

As part of the long-term strategy to manage the risks and uncertainties associated with the pension schemes, the Group has continued to implement a programme of measures to manage the cost and risks of providing the defined benefit arrangements and to provide greater security for the benefits that members have built up.

During 2010, ITV implemented two initiatives to reduce these risks, resulting in a £28 million income statement gain. With effect from 1 April 2010, ITV is offering all new pensioners the opportunity to uplift part of their pension in return for giving up rights to annual increases on that part of their pension. Additionally, the offer was extended to existing pensioners who retired after the initial offer was made in 2009. The level of member acceptance resulted in a past service credit of £27 million over 2010, reflecting the reduction in the liabilities due to the option being accepted by these pensioners and the expected take-up of this option in the future. In addition, the Group carried out an enhanced transfer value ('ETV') programme aimed at reducing the liabilities in respect of the deferred pensioner population. This resulted in a net settlement gain of £1 million, reflecting the difference between the liabilities removed and the ETV paid.

IAS 19

Detailed analysis of the Group's pension schemes, including timing of actuarial valuations, are included in note 3.6 of the financial statements.

The Group's defined contribution schemes gave rise to an operating charge in 2010 of £6 million (2009: £4 million).

The aggregate IAS 19 deficit on defined benefit schemes at 31 December 2010 was £313 million (2009: £436 million). This decrease was driven by an increase in the value of the scheme assets, the benefits from the actions taken in the year as set out above and the reduction in liabilities due to the Government's decision to link statutory pension increases to the Consumer Price Index rather than the Retail Price Index. This was offset in part by a decrease in the discount rate applied to liabilities.

SDN pension partnership

In the first half of 2010 the Group and the Trustee of the ITV Pension Scheme ('the Scheme') created a pension funding partnership, ITV Scottish Limited Partnership ('the Partnership'). The Partnership owns SDN Limited and the Group has contributed an interest in the Partnership worth £124 million to the main section of the Scheme. The Group retains control, and continues to consolidate the revenue and cashflow, of the Partnership and SDN.

Under the Partnership arrangements, the Group has committed to making a payment to the main section of the Scheme of up to £150 million in 2022, if and to the extent that it remains in deficit. In addition, the Partnership will make an annual distribution of £8 million to the Scheme for

12 years from 2011. The Partnership's interest in SDN will provide collateral for these payments. The Scheme's interest in the Partnership reduces the deficit on a funding basis, although the agreement does not impact the deficit on an IAS 19 basis, as it is not an asset controlled by the Scheme. The deferred tax balance associated with the pension deficit has been adjusted to reflect this transaction (see note 2.3 in the financial statements).

Deficit funding

The Group has agreed with the Trustee the level of contributions to the main section of the ITV Pension Scheme through to 2014. From 2011 the Group will make deficit funding contributions of £35 million per annum. From 2012 the Group's annual contribution will be increased by £5 million, unless during the previous year the Group implemented initiatives which reduce the Scheme's deficit by at least £10 million, compared with the level absent such initiatives. In addition from 2012, if the Group's reported EBITA before exceptional items exceeds £300 million in the previous year, the Group will increase this contribution by an amount representing 10% of EBITA before exceptional items over this threshold level. These arrangements supersede the Group's previous commitment to make annual contributions of £30 million per annum through to 2013. Further deficit contributions of £8 million will commence from 2011 as a result of the SDN partnership, as described above. Assuming no unforeseen circumstances, no further change is currently expected in ITV's committed contributions to the main section of the Scheme before 2015. The triennial valuation, as at 1 January 2010, of the two smaller sections of the defined benefit pension scheme, sections B and C, is in progress.

Trustees' investment strategy

The Trustees continue to review the investment strategy for the main defined benefit pension scheme. The asset allocation of the main section of the Scheme as at 31 December 2010 was broadly that 47% of the assets were invested in equity, property and other return seeking assets, and 53% were invested in bonds and other liability-matching investments. The Trustees also use derivative instruments to hedge partial exposures to movements in interest rates, inflation and foreign exchange rates.

Ian Griffiths Group Finance Director

Introduction and table of contents

In preparing these financial statements we have changed the format and layout following the principles outlined in the Financial Reporting Council's publication 'Louder than words'. We have made these changes to make ITV's financial statements less complex and more relevant to shareholders. We have grouped notes under three key headings; 'Results for the year', 'Operating assets and liabilities' and 'Capital structure and financing costs'. Each section sets out the accounting policies applied in producing these notes together with any key judgements and estimates used. The purpose of these changes is to provide readers with a clearer understanding of what drives financial performance of the Group. Text in speech bubbles provides commentary on each section in plain English.

Notes to the financial statements provide additional information required by statute, accounting standards or Listing Rules to explain a particular feature of the financial statements. The notes which follow will also provide explanations and additional disclosure to assist readers' understanding and interpretation of the annual report and the financial statements.

Contents

Consolidated income statement

For the year ended 31 December:	Note	2010 £m	2009 £m
Revenue	2.1	**2,064**	1,879
Operating costs		**(1,700)**	(1,683)
Operating profit		**364**	196
Presented as:			
Earnings before interest, tax, amortisation (EBITA) before exceptional items	2.1	**408**	202
Operating exceptional items	2.2	**19**	53
Amortisation of intangible assets	3.3	**(63)**	(59)
Operating profit		**364**	196
Financing income	4.4	**185**	201
Financing costs	4.4	**(260)**	(292)
Net financing costs	4.4	**(75)**	(91)
Share of profits or (losses) of joint ventures and associated undertakings	2.1	**(3)**	(7)
Loss on sale and impairment of non-current assets (exceptional items)	2.2	**(4)**	(22)
Gain/(loss) on sale and impairment of subsidiaries and investments (exceptional items)	2.2	**4**	(51)
Profit before tax		**286**	25
Taxation	2.3	**(16)**	69
Profit for the year		**270**	94
Profit attributable to:			
Owners of the Company		**269**	91
Non-controlling interests		**1**	3
Profit for the year		**270**	94
Earnings per share			
Basic earnings per share	2.4	**6.9p**	2.3p
Diluted earnings per share	2.4	**6.6p**	2.3p

Operating exceptional items during the year mainly comprise reorganisation and restructuring costs, onerous property provisions and gains arising from pension scheme changes (see note 2.2 for details).

Consolidated statement of comprehensive income

For the year ended 31 December:	2010 £m	2009 £m
Profit for the year	**270**	94
Other comprehensive income:		
Foreign currency translation differences	**3**	(4)
Revaluation of available for sale financial assets	**(3)**	2
Amounts recycled to the income statement in respect of cash flow hedges	**–**	(9)
Actuarial gains/(losses) on defined benefit pension schemes	**67**	(391)
Income tax (charge)/credit on other comprehensive income	**(22)**	101
Other comprehensive income/(cost) for the year, net of income tax	**45**	(301)
Total comprehensive income/(cost) for the year	**315**	(207)
Total comprehensive income/(cost) attributable to:		
Owners of the Company	**314**	(210)
Non-controlling interests	**1**	3
Total comprehensive income/(cost) for the year	**315**	(207)

Consolidated statement of financial position

As at 31 December	Note	2010 £m	2009 £m
Non-current assets			
Property, plant and equipment	3.2	**151**	161
Intangible assets	3.3	**969**	1,030
Investments in joint ventures and associated undertakings		**2**	5
Available for sale financial assets		**3**	1
Held to maturity investments	4.1	**148**	149
Derivative financial instruments	4.3	**89**	151
Distribution rights	3.1.1	**12**	16
Net deferred tax asset	2.3	**73**	50
		1,447	1,563
Current assets			
Programme rights and other inventory	3.1.2	**284**	388
Trade and other receivables due within one year	3.1.4	**442**	432
Trade receivables due after more than one year	3.1.4	**6**	7
Trade and other receivables		**448**	439
Derivative financial instruments	4.3	**69**	5
Cash and cash equivalents	4.1	**860**	582
Assets held for sale	3.4	**3**	78
		1,664	1,492
Current liabilities			
Borrowings	4.2	**(55)**	(9)
Derivative financial instruments	4.3	**(3)**	(4)
Trade and other payables due within one year	3.1.5	**(672)**	(646)
Trade payables due after more than one year	3.1.6	**(26)**	(31)
Trade and other payables		**(698)**	(677)
Current tax liabilities		**(65)**	(31)
Provisions	3.5	**(34)**	(47)
Liabilities held for sale	3.4	**–**	(3)
		(855)	(771)
Net current assets		**809**	721
Non-current liabilities			
Borrowings	4.2	**(1,223)**	(1,431)
Derivative financial instruments	4.3	**(39)**	(30)
Defined benefit pension deficit	3.6	**(313)**	(436)
Other payables		**(3)**	(12)
Provisions	3.5	**(15)**	(29)
		(1,593)	(1,938)
Net assets		**663**	346
Attributable to equity shareholders of the parent company			
Share capital	4.7.1	**389**	389
Share premium	4.7.1	**120**	120
Merger and other reserves	4.7.2	**304**	308
Translation reserve		**14**	11
Available for sale reserve		**5**	8
Retained losses		**(171)**	(491)
Total equity attributable to equity shareholders of the parent company		**661**	345
Non-controlling interests		**2**	1
Total equity		**663**	346

Ian Griffiths
Group Finance Director

Consolidated statement of changes in equity

	Note	Share capital £m	Share premium £m	Merger and other reserves £m	Translation reserve £m	Available for sale reserve £m	Retained losses £m	Total £m	Non-controlling interests £m	Total equity £m
		Attributable to equity shareholders of the parent company								
Balance at 1 January 2010		**389**	**120**	**308**	**11**	**8**	**(491)**	**345**	**1**	**346**
Total comprehensive income for the year										
Profit		–	–	–	–	–	269	269	1	**270**
Other comprehensive income/(cost)										
Revaluation of available for sale financial assets		–	–	–	–	(3)	–	(3)	–	**(3)**
Foreign currency translation differences		–	–	–	3	–	–	3	–	**3**
Actuarial gains on defined benefit pension schemes	3.6	–	–	–	–	–	67	67	–	**67**
Income tax on other comprehensive income	2.3	–	–	–	–	–	(22)	(22)	–	**(22)**
Total other comprehensive income/(cost)		–	–	–	3	(3)	45	45	–	**45**
Total comprehensive income/(cost) for the year		**–**	**–**	**–**	**3**	**(3)**	**314**	**314**	**1**	**315**
Transactions with owners, recorded directly in equity										
Contributions by and distributions to owners										
Equity portion of the convertible bond	4.1	–	–	(4)	–	–	4	–	–	**–**
Movements due to share-based compensation	4.7.7	–	–	–	–	–	8	8	–	**8**
Purchase of own shares via employees' benefit trust	4.7.7	–	–	–	–	–	(6)	(6)	–	**(6)**
Total contributions by and distributions to owners		–	–	(4)	–	–	6	2	–	**2**
Change in ownership interest in subsidiaries that do not result in a loss of control										
Total changes in ownership interests in subsidiaries		–	–	–	–	–	–	–	–	**–**
Total transactions with owners		–	–	(4)	–	–	6	2	–	**2**
Balance at 31 December 2010	4.7	**389**	**120**	**304**	**14**	**5**	**(171)**	**661**	**2**	**663**

	Note	Share capital £m	Share premium £m	Merger and other reserves £m	Translation reserve £m	Available for sale reserve £m	Retained losses £m	Total £m	Non-controlling interests £m	Total equity £m
		Attributable to equity shareholders of the parent company								
Balance at 1 January 2009		**389**	**120**	**273**	**24**	**6**	**(286)**	**526**	**8**	**534**
Total comprehensive income for the year										
Profit		–	–	–	–	–	91	91	3	94
Other comprehensive income/(cost)										
Revaluation of available for sale financial assets		–	–	–	–	2	–	2	–	2
Foreign currency translation differences		–	–	–	(4)	–	–	(4)	–	(4)
Amounts recycled to the income statement in respect of cash flow hedges		–	–	–	(9)	–	–	(9)	–	(9)
Actuarial losses on defined benefit pension schemes	3.6	–	–	–	–	–	(391)	(391)	–	(391)
Income tax on other comprehensive income	2.3	–	–	–	–	–	101	101	–	101
Total other comprehensive income/(cost)		–	–	–	(13)	2	(290)	(301)	–	(301)
Total comprehensive income/(cost) for the year		**–**	**–**	**–**	**(13)**	**2**	**(199)**	**(210)**	**3**	**(207)**
Transactions with owners, recorded directly in equity										
Contributions by and distributions to owners										
Equity dividends		–	–	–	–	–	–	–	(2)	(2)
Equity portion of the convertible bond	4.1	–	–	35	–	–	1	36	–	36
Movements due to share-based compensation	4.7	–	–	–	–	–	11	11	–	11
Purchase of own shares via employees' benefit trust	4.7	–	–	–	–	–	(3)	(3)	–	(3)
Total contributions by and distributions to owners		–	–	35	–	–	9	44	(2)	42
Change in ownership interest in subsidiaries that do not result in a loss of control										
Non-controlling interest acquired		–	–	–	–	–	(15)	(15)	(8)	(23)
Total changes in ownership interests in subsidiaries		–	–	–	–	–	(15)	(15)	(8)	(23)
Total transactions with owners		–	–	35	–	–	(6)	29	(10)	19
Balance at 31 December 2009	4.7	**389**	**120**	**308**	**11**	**8**	**(491)**	**345**	**1**	**346**

Consolidated statement of cash flows

For the year ended 31 December:	Note	£m	2010 £m	£m	2009 £m
Cash flows from operating activities					
Profit before tax		**286**		25	
(Gain)/loss on sale and impairment of subsidiaries and investments (exceptional items)	2.2	**(4)**		51	
Loss on sale and impairment of non-current assets (exceptional items)	2.2	**4**		22	
Share of (profits) or losses of joint ventures and associated undertakings		**3**		7	
Net financing costs	4.4	**75**		91	
Operating exceptional items	2.2	**(19)**		(53)	
Depreciation of property, plant and equipment	3.2	**30**		38	
Amortisation and impairment of intangible assets	3.3	**63**		59	
Share-based compensation	4.7	**8**		11	
Decrease in programme rights and other inventory, and distribution rights		**108**		125	
(Increase)/decrease in receivables		**(8)**		11	
Decrease in payables		**(1)**		(15)	
Movement in working capital	3.1	**99**		121	
Cash generated from operations before exceptional items			**545**		372
Cash flow relating to operating exceptional items:					
Net operating income	2.2	**19**		53	
Increase in payables and provisions and the impact of the exceptional pension gain		**(45)**		(116)	
Cash outflow from exceptional items			**(26)**		(63)
Cash generated from operations			**519**		309
Defined benefit pension deficit funding		**(30)**		(31)	
Interest received		**40**		44	
Interest paid on bank and other loans		**(100)**		(116)	
Interest paid on finance leases		**(4)**		(4)	
Net taxation (paid)/received		**(23)**		41	
			(117)		(66)
Net cash inflow from operating activities			**402**		243
Cash flows from investing activities					
Acquisition of subsidiary undertakings, net of cash and cash equivalents acquired and debt repaid on acquisition		**–**		(50)	
Proceeds from sale of property, plant and equipment		**7**		4	
Acquisition of property, plant and equipment		**(26)**		(14)	
Acquisition of intangible assets		**(2)**		(13)	
Loans granted to associates and joint ventures		**(6)**		(6)	
Loans repaid by associates and joint ventures		**9**		4	
Proceeds from sale of subsidiaries, joint ventures and available for sale investments		**69**		4	
Net cash inflow/(outflow) from investing activities			**51**		(71)
Cash flows from financing activities					
Bank and other loans – amounts repaid		**(155)**		(508)	
Bank and other loans – amounts raised		**–**		516	
Capital element of finance lease payments		**(7)**		(7)	
Acquisition of non-controlling interests		**–**		(23)	
Dividends paid to non-controlling interest		**–**		(2)	
Purchase of own shares via employees' benefit trust		**(6)**		(3)	
Purchase of held to maturity investments	4.1	**–**		(150)	
Equity dividends paid		**–**		(25)	
Net cash outflow from financing activities			**(168)**		(202)
Net increase/(decrease) in cash and cash equivalents			**285**		(30)
Cash and cash equivalents at 1 January	4.1		**582**		616
Effects of exchange rate changes and fair value movements			**(7)**		–
Less: cash related to disposal group			**–**		(4)
Cash and cash equivalents at 31 December	4.1		**860**		582

Section 1 Basis of preparation

This section lays out the Group's accounting policies that relate to the financial statements as a whole. Where an accounting policy is specific to one note, the policy is described in the note to which it relates. This section also shows new EU endorsed accounting standards, amendments and interpretations, whether these are effective in 2010 or later years. In both cases we explain how they are expected to impact the performance of the Group.

The financial statements consolidate those of ITV plc, ('the Company') and its subsidiaries (together referred to as 'the Group') and include the Group's interests in associates and jointly controlled entities. The Company is domiciled in the United Kingdom.

As required by EU law (IAS Regulation EC 1606/2002) the Group's accounts have been prepared in accordance with International Financial Reporting Standards as adopted by the EU ('IFRS'), and approved by the directors.

The financial statements are principally prepared on the basis of historical cost. Areas where other bases are applied are identified in the relevant accounting policy.

The Company has elected to prepare its parent company financial statements in accordance with UK GAAP.

The financial information in this preliminary announcement represents non-statutory accounts within the meaning of Section 435 of the Companies Act 2006. The auditors have reported on the statutory accounts for the year ended 31 December 2010. Their report was (i) unqualified, (ii) did not include a reference to any matters to which the auditors drew attention by way of emphasis without qualifying their report and (iii) did not contain a statement under Section 498 (2) or (3) of the Companies Act 2006. These accounts will be sent to the Registrar of Companies following the Company's Annual General Meeting. A separate dissemination announcement in accordance with the Disclosure and Transparency Rules (DTR) 6.3 will be made when the annual report and audited financial statements are available on the Group's website.

Going concern

As a result of the funding activities undertaken, improvements in working capital, disposals and the upturn in television advertising, the Group has in 2010 reduced its current level of net debt and has also improved both its short-term and medium-term liquidity position.

The Group continues to review forecasts of the television advertising market to determine the impact on ITV's liquidity position and will continue to evaluate opportunities to push out maturity and create further cash headroom. The Group's forecasts and projections, taking account of reasonably possible changes in trading performance, show that the Group should be able to operate within the level of its current funding.

After making enquiries, the directors have a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future. Accordingly, the Group continues to adopt the going concern basis in preparing its consolidated financial statements.

Subsidiaries, joint ventures, associates and special purpose entities

Subsidiaries are entities that are directly or indirectly controlled by the Group. Control exists where the Group has the power to govern the financial and operating policies of the entity in order to obtain benefits from its activities. In assessing control, potential voting rights that are currently exercisable or convertible are taken into account.

A joint venture is an entity in which the Group holds an interest under a contractual arrangement where the Group and one or more other parties undertake an economic activity that is subject to joint control. The Group accounts for its interests in joint ventures using the equity method. Under the equity method the investment in the entity is stated as one line item at cost plus the investor's share of retained post-acquisition profits and other changes in net assets.

An associate is an entity, other than a subsidiary or joint venture, over which the Group has significant influence. Significant influence is the power to participate in the financial and operating decisions of an entity but is not in control or joint control over those policies. These investments are also accounted for using the equity method.

The Group establishes special purpose entities (SPEs) for trading and investment purposes. An SPE is consolidated if, based on an evaluation of the substance of its relationships with the Group and the SPE's risks and rewards, it is concluded that the Group controls the SPE. Those SPEs controlled by the Group are established under terms that impose strict limitations on the decision-making powers of their management and that result in the Group receiving the majority of the benefits related to the SPEs' operations and net assets, being exposed to the majority of risks incidental to their activities and receiving the majority of the residual or ownership risks related to the SPEs or their assets.

Current/non-current distinction

Current assets include assets held primarily for trading purposes, cash and cash equivalents, and assets expected to be realised in, or intended for sale or use in, the course of the Group's operating cycle. All other assets are classified as non-current assets.

Current liabilities include liabilities held primarily for trading purposes, liabilities expected to be settled in the course of the Group's operating cycle and those liabilities due within one year from the reporting date. All other liabilities are classified as non-current liabilities.

Classification of financial instruments

The financial assets and liabilities of the Group are classified into the following financial statement captions in the statement of financial position in accordance with IAS 39: financial instruments:

- 'Loans and receivables' – separately disclosed as cash and cash equivalents (excluding gilts over which unfunded pension promises have a charge) and trade and other receivables;
- 'Available for sale financial assets' – measured at fair value through other comprehensive income. Includes gilts over which unfunded pension commitments have a charge and equity securities that do not meet the definition of subsidiaries, joint ventures or associates;
- 'Held to maturity investments';
- 'Financial assets/liabilities at fair value through profit or loss' – separately disclosed as derivative financial instruments-assets/liabilities; and
- 'Financial liabilities measured at amortised cost' – separately disclosed as borrowings and trade and other payables.

Details on the accounting policies for measurement of the above instruments are set out in the relevant note.

Recognition and derecognition of financial assets and liabilities

The Group recognises a financial asset or liability when it becomes a party to the contract. Financial instruments are no longer recognised in the statement of financial position when the contractual cash flows expire or when the Group no longer retains control of substantially all the risks and rewards under the instrument.

Cash and cash equivalents

Cash and cash equivalents comprise cash balances, call deposits with maturity of less than or equal to three months from the date of acquisition, cash held to meet certain finance lease commitments and gilts over which unfunded pension promises have a charge. The carrying value of cash and cash equivalents is considered to approximate fair value.

Foreign currencies

The primary economic environment in which the Group operates is the UK. The consolidated financial statements are therefore presented in pounds sterling ('£').

Where Group companies based in the UK transact in foreign currencies, these transactions are translated into pounds sterling at the exchange rate on that day. Foreign currency monetary assets and liabilities are translated into pounds sterling at the year-end exchange rate. Where there is a movement in the exchange rate between the date of the transaction and the year-end, a foreign exchange gain or loss may arise. Any such differences are recognised in the income statement. Non-monetary assets and liabilities measured at historical cost are translated into pounds sterling at the exchange rate on the date of the transaction.

The assets and liabilities of Group companies outside of the UK are translated into pounds sterling at the year-end exchange rate. The revenues and expenses of these companies are translated into pounds sterling at the average monthly exchange rate during the year. Where differences arise between these rates, they are recognised in the translation reserve within equity and other comprehensive income.

Exchange differences arising on the translation of the Group's interests in joint ventures and associates are recognised in the translation reserve within equity and other comprehensive income.

In respect of all Group companies outside of the UK only those translation differences arising since 1 January 2004, the date of transition to IFRS, are presented as a separate component of equity. On disposal of an interest in a joint venture or an associate, the related translation reserve is released to the income statement as part of the gain or loss on disposal.

Accounting estimates and judgements

The preparation of financial statements requires management to exercise judgement in applying the Group's accounting policies. It also requires the use of estimates and assumptions that affect the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis, with revisions recognised in the period in which the estimates are revised and in any future periods affected.

The areas involving a higher degree of judgement or complexity are set out below and in more detail in the related notes:

- Revenue recognition (note 2.1)
- Classification of financial instruments (included in this note)
- Consolidation of SPEs (included in this note)

The areas involving the most sensitive estimates and assumptions that are significant to the financial statements are set out below and in more detail in the related notes:

- Intangible assets (note 3.3)
- Impairment of assets (note 3.2 and note 3.3)
- Programme rights and other inventory (note 3.1)
- Trade receivables (note 3.1)
- Taxation (note 2.3)
- Defined benefit pension schemes (note 3.6)
- Employee benefits (note 4.7)
- Provisions (note 3.5)

Application of new or amended EU endorsed accounting standards

Accounting Standard	Requirement	Impact on financial statements
IFRS 8: Operating Segments	IFRS 8 was amended to state that segment information for total assets is only required if such information is regularly reported to the chief operating decision-maker ('CoDM').	The Group has not disclosed total assets since this information is not regularly reported to the CoDM.
IAS 1: Presentation of Financial Statements	IAS 1 was amended to state that the classification of the liability component of a convertible instrument as current or non-current is not affected by terms that, at the option of the holder, result in settlement of the liability through issue of equity instruments.	The holders of ITV's convertible bond have no ability to force early conversion of the convertible bond, and therefore the liability component continues to be held as a non-current liability.
IAS 17: Leases – Classification of leases of land and buildings	The standard was amended such that leases over a long (several decades) period of time may now be classified as a finance lease, even if at the end of the lease term title does not pass to the lessee.	The Group continues to hold such leases as operating leases.
IAS 36: Impairment of Assets	The standard was amended to confirm that the largest unit to which goodwill can be allocated is the operating segment level, as defined in IFRS 8, before applying the aggregation criteria.	The Group has reconsidered the allocation of goodwill in the current year (see note 3.3).

The directors considered the impact of other new and revised accounting standards, interpretations or amendments on the Group that are currently endorsed but not yet effective. It was concluded that none were relevant to the Group's results.

Section 2 Results for the year

This section focuses on the results and performance of the Group. On the following pages you will find disclosures explaining the Group's results for the year, segmental information, exceptional items, taxation and earnings per share.

2.1 Profit before tax

This section analyses the Group's profit before tax by reference to the activities performed by the Group and an analysis of key operating costs.

Earnings before interest, tax, amortisation and exceptional items remains the Group's key profit indicator. This reflects the way the business is managed and how the directors assess the performance of the Group.

Accounting policies

Revenue recognition

Revenue is stated exclusive of VAT and consists of sales of goods and services to third parties. Revenue from the sale of products is recognised when the Group has transferred both the significant risks and rewards of ownership and control of the products sold and the amount of revenue can be measured reliably.

Key classes of revenue are recognised on the following bases:

Class of revenue	Recognition criteria
Advertising	on transmission or display
Sponsorship	on transmission of the sponsored programme or series
Programme production	on delivery
Programme rights	when contracted and available for exploitation
Multiplex services	as the service is provided
Participation revenues*	as the service is provided

* Participation revenues relate to interactive and 'red button' services and arise principally in the 'Broadcasting & Online' segment.

Segmental information

Operating segments, which have not been aggregated, are reported in a manner that is consistent with the internal reporting provided to the Board of directors, regarded as the chief operating decision-maker.

The Board of directors considers the business primarily from a product or activity perspective. The reportable segments for the years ended 31 December 2010 and 31 December 2009 are therefore 'Broadcasting & Online', 'ITV Studios' and 'Other' (2009 only) the results of which are outlined below:

	Broadcasting & Online 2010 £m	ITV Studios 2010 £m	Consolidated 2010 £m
Total segment revenue	**1,771**	**554**	**2,325**
Intersegment revenue	**–**	**(261)**	**(261)**
Revenue from external customers	**1,771**	**293**	**2,064**
EBITA before exceptional items	**327**	**81**	**408**
Share of profits or (losses) of joint ventures and associated undertakings	**(3)**	**–**	**(3)**

	Broadcasting & Online 2009 £m	ITV Studios 2009 £m	Other 2009 £m	Consolidated 2009 £m
Total segment revenue	1,543	597	1	2,141
Intersegment revenue	–	(262)	–	(262)
Revenue from external customers	1,543	335	1	1,879
EBITA before exceptional items	111	91	–	202
Share of profits or (losses) of joint ventures and associated undertakings	(4)	–	(3)	(7)

'**Broadcasting & Online**' is responsible for commissioning and scheduling programmes on the ITV channels, marketing and programme publicity and online rights exploitation. It derives its revenue primarily from the sale of advertising airtime and sponsorship. Other sources of revenue are from online advertising, participation revenue and the digital terrestrial multiplex, SDN.

'**ITV Studios**' derives its revenue primarily from ITV Studios UK (a commercial programme production company), international production centres in America, Germany, Sweden and Australia and the distribution and exploitation businesses in ITV Studios Global Entertainment. A proportion of revenue is generated internally via programme sales to the 'Broadcasting & Online' segment. ITV Studios Global Entertainment sells programming, exploits merchandising and licensing worldwide, and is a distributor of DVD entertainment in the UK.

Depreciation in the year was £30 million (2009: £38 million), of which £19 million (2009: £25 million) relates to 'Broadcasting & Online' and £11 million (2009: £13 million) to 'ITV Studios'.

Sales between segments are carried out at arm's length terms. In preparing the segment information, costs have been allocated between reportable segments consistently on the basis of a relevant allocation methodology. For example, rent is allocated on the basis of square feet occupied. This reflects the basis of reporting to the Board of directors.

The Board of directors assess the performance of the reportable segments based on a measure of EBITA before exceptional items. This is defined as operating profit before amortisation of intangible assets and operating exceptional items. The Board of directors uses this measurement basis as it excludes the effect of non-recurring income and expenditure. Amortisation, investment income and share of profit/(losses) of joint ventures and associates are also excluded to reflect more accurately how the business is managed and measured on a day-to-day basis. Net financing costs are not allocated to segments as this type of activity is driven by the central treasury function, which manages the cash position of the Group.

A reconciliation of EBITA before exceptional items to profit before tax is provided as follows:

	2010 £m	2009 £m
EBITA before exceptional items	**408**	202
Operating income – exceptional items	**19**	53
Amortisation and impairment of intangible assets	**(63)**	(59)
Net financing costs	**(75)**	(91)
Share of profits or (losses) of joint ventures and associated undertakings	**(3)**	(7)
Loss on sale and impairment of non-current assets (exceptional items)	**(4)**	(22)
Gain/(loss) on sale and impairment of subsidiaries and investments (exceptional items)	**4**	(51)
Profit before tax	**286**	25

The Group's principal operations are in the United Kingdom. Its revenue from external customers in the United Kingdom is £1,865 million (2009: £1,621 million), and the total revenue from external customers in other countries is £199 million (2009: £258 million).

Revenues of approximately £400 million (2009: £324 million), £270 million (2009: £194 million), £202 million (2009: £190 million) and £196 million (2009: £226 million) are derived from four external customers. The Group's major customers are all media buying agencies acting on behalf of a number of customers. These revenues are attributable to the 'Broadcasting & Online' segment and contain the only customers which individually represent over 10% of the Group's revenues.

Operating costs

Staff costs

Staff costs can be analysed as follows:

	2010 £m	2009 £m
Wages and salaries	**212**	244
Social security and other costs	**32**	33
Share-based compensation (see note 4.7)	**8**	11
Pension costs	**17**	16
Total	**269**	304

Staff costs within exceptional items were £11 million (2009: £32 million) and principally relate to redundancy payments. Total staff costs including exceptional items for the year ended 31 December 2010 are £280 million (2009: £336 million).

The number of employees (excluding short term contractors and freelancers), calculated on a weighted average basis, during the year was:

	2010	2009
Broadcasting & Online	**2,312**	2,606
ITV Studios	**1,635**	1,908
Other	**–**	5
Total	**3,947**	4,519

Details of the directors' emoluments, share options, pension entitlements and long-term incentive scheme interests are set out in the Remuneration report.

Operating leases

The total future minimum lease payments under non-cancellable operating leases fall due for payment as follows:

	2010 £m	2009 £m
Within one year	**11**	13
Later than one year and not later than five years	**38**	39
Later than five years	**138**	145
	187	197

These leases primarily relate to the Group's properties, which principally comprise offices and studios. Leases typically run for a period of between five and ten years and may have an option to renew after that date. Lease payments are typically subject to market review every five years to reflect market rentals, but because of the uncertainty over the amount of any future changes, such changes have not been reflected in the table above. None of the leases include contingent rentals.

The total future minimum sublease payments expected to be received under non-cancellable subleases at the year end is £8 million (2009: £5 million).

The total operating lease expenditure recognised during the year was £12 million (2009: £14 million) and total sublease payments received was £5 million (2009: £4 million).

Audit fees

The Group engages KPMG Audit Plc ('KPMG') on assignments additional to their statutory audit duties where their expertise and experience with the Group are important. The Group's policy on such assignments is set out in the Audit Committee report.

Fees paid to KPMG during the year are set out below:

	2010 £m	2009 £m
Fees payable to KPMG for the audit of the Group's annual accounts	**0.7**	0.7
Fees payable to KPMG and its associates for other services:		
The audit of the Group's subsidiaries pursuant to legislation	**0.2**	0.2
Other services supplied pursuant to legislation	**0.2**	0.4
Other services relating to taxation	**0.8**	0.2
Services relating to corporate finance transactions entered into or proposed to be entered into by or on behalf of the Group or any of its associates	**–**	0.6
All other services	**–**	0.1
Total	**1.9**	2.2

Fees paid to KPMG for audit and other services to the Company are not disclosed in its individual accounts as the Group accounts are required to disclose such fees on a consolidated basis.

2.2 Exceptional Items

Exceptional items are excluded from management's assessment of profit. In management's judgement exceptional items are material and non-recurring. They are excluded in order to understand the Group's underlying quality of earnings and reflect how the business is managed and measured on a day-to-day basis.

Accounting policies

Exceptional items, as disclosed on the face of the income statement, are items that due to their material and non-recurring nature have been classified separately in order to draw them to the attention of the reader of the financial statements.

Exceptional items

Operating and non operating exceptional items are analysed as follows:

(Charge)/credit	Ref.	2010 £m	2009 £m
Operating exceptional items:			
Reorganisation and restructuring costs	A	**(17)**	(40)
Onerous contract provisions		**1**	(1)
Onerous property provision	B	**7**	(14)
Pension scheme changes	C	**28**	110
Kangaroo closure costs		**–**	(2)
Total net operating exceptional items		**19**	53
Non-operating exceptional items:			
Loss on sale and impairment of non-current assets	D	**(4)**	(22)
Gain/(loss) on sale and impairment of subsidiaries and investments	E	**4**	(51)
Total non-operating exceptional items		**–**	(73)
Total exceptional items before tax		**19**	(20)

A – Reorganisation and restructuring costs

In 2010 a charge of £17 million (2009: £40 million) was recognised in relation to cost saving restructuring initiatives.

B – Onerous property provision

A £7 million credit (2009: charge of £14 million) in respect of sublet property at Gray's Inn Road was recognised during the year. This provision release relates to changes in the anticipated use of the site previously expected to be excess space, as a result of significant headcount reductions in 2009. This provision was raised as an operating exceptional in 2009, and therefore the partial release of this provision has been credited to operating exceptional items.

C – Pension scheme changes (see note 3.6)

Operating exceptional gains of £28 million were recognised in 2010 in relation to changes made to the ITV Pension Scheme. These included:

- a past service credit of £25 million in relation to the introduction of a member option to change pension payments at retirement;
- a past service credit of £2 million in relation to the one off change to pension payments; and
- a settlement gain of £1 million in relation to the enhanced transfer value exercise.

In 2009 operating exceptional gains of £110 million were recognised for the following:

- a curtailment gain of £72 million for changes that were made to implement a cap on increases to pensionable salary levels; and
- a £38 million past service credit for changes made offering retired members the option of altering the structure of their pension by receiving an uplift now in return for giving up rights to future annual increases.

D – Loss on sale and impairment of non-current assets

The £4 million (2009: £22 million) loss on sale and impairment of non-current assets relates to:

- a net £3 million (2009: £14 million) impairment on property, plant and equipment no longer used at properties expected to be vacated;
- a net £1 million (2009: £3 million) loss arising on the disposal of property, plant and equipment; and
- a £nil (2009: £5 million) impairment on properties, included within assets held for sale, to reflect their estimated market value.

E – Gain/(loss) on sale, net of impairment, of subsidiaries, joint ventures and associates

The £4 million gain on sale, net of impairment of subsidiaries, joint ventures and associates principally relates to the sale of Screenvision US (Technicolor Cinema Advertising LLC) as disclosed in note 3.4.

In 2009 the net £51 million loss principally included a £32 million impairment loss on Friends Reunited; £5 million net loss on sale of subsidiaries; £9 million net impairment of joint ventures and associates; and a £6 million charge in relation to Carlton Screen Advertising Limited ('CSA') being put into creditors' voluntary liquidation.

2.3 Taxation

This section lays out the tax accounting policies, the current and deferred tax charges or credits in the year (which together make up the total tax charge or credit in the income statement), a reconciliation of profit or loss before tax to the tax charge or credit and the movements in deferred tax assets and liabilities.

Accounting policies

The tax charge for the period is recognised in the income statement and the statement of comprehensive income, according to the accounting treatment of the related transaction. The tax charge comprises both current and deferred tax.

Current tax is the expected tax payable or receivable on the taxable income or loss for the year and any adjustment to tax payable in respect of previous years. The current tax charge is based on tax rates that are enacted or substantively enacted at the year-end.

The Group recognises liabilities for anticipated tax issues based on estimates of the additional taxes that are likely to become due, which requires judgement. Amounts are accrued based on management's interpretation of specific tax law and the likelihood of settlement. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income tax and deferred tax provisions in the period in which such determination is made.

Deferred tax arises due to certain temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and those for taxation purposes. The following temporary differences are not provided for:

– the initial recognition of goodwill;
– the initial recognition of assets or liabilities that affect neither accounting nor taxable profit other than in a business combination; and
– differences relating to investments in subsidiaries to the extent that they will probably not reverse in the foreseeable future.

The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities. A deferred tax asset is recognised only to the extent that it is probable that sufficient taxable profit will be available to utilise the temporary difference.

Recognition of deferred tax assets, therefore, involves judgement regarding the timing and level of future taxable income. Deferred tax assets and liabilities are disclosed net to the extent that they relate to taxes levied by the same authority and the Group has the right of set off.

Taxation – Income statement

The total taxation (charge)/credit in the income statement is analysed as follows:

	2010 £m	2009 £m
Current tax:		
Current tax charge before exceptional items	**(64)**	(13)
Current tax credit on exceptional items	**3**	10
	(61)	(3)
Adjustment for prior periods	**–**	68
	(61)	65
Deferred tax:		
Origination and reversal of temporary differences	**53**	21
Deferred tax on exceptional items	**(8)**	(31)
Adjustment for prior periods	**–**	14
	45	4
Total taxation (charge)/credit in the income statement	**(16)**	69

In order to understand how, in the income statement, a tax charge of £16 million arises on a profit before tax of £286 million, the taxation charge that would arise at the standard rate of UK corporation tax is reconciled to the actual tax charge as follows:

	2010 £m	2009 £m
Profit before tax	**286**	25
Taxation charge at UK corporation tax rate of 28% (2009: 28%)	**(80)**	(7)
Non-taxable/non-deductible exceptional items	**–**	(21)
Non-taxable income/non-deductible expenses	**(1)**	(8)
Recognition of tax losses brought forward	**68**	26
Over provision in prior periods	**–**	82
Other	**(3)**	(3)
Total taxation (charge)/credit in the income statement	**(16)**	69

Non-deductible expenses are expenses that are not expected to be allowable for tax purposes. Similarly non-taxable income is income that will not be taxed.

Tax losses brought forward may be utilised against current year profits if the brought forward losses and the current year profits are of the same type. Use of tax losses in this way leads to a reduction of the tax charge. Tax losses of £68 million (2009: £26 million) include a credit for utilisation of financing losses linked to previous investments ('loan relationship deficits') of £16 million (2009: £23 million) and the recognition of deferred tax of £45 million (2009: £3 million) on the remaining loan relation deficits and a credit of £5 million (2009: £nil) on the recognition of a deferred tax asset on other losses.

Over provision in prior periods may arise if a more favourable outcome is obtained for tax purposes than was expected when the provision was made. Upon confirmation that the more favourable tax treatment will apply, the over provision may be released to lower the current year tax charge. The opposite is true of under provisions.

The emergency budget on 22 June 2010 announced a change to the UK corporation tax rate from 28% to 27%. This was substantially enacted on 20 July 2010 and will be effective from 1 April 2011. This will reduce the Group's future tax charge and accordingly deferred tax assets and liabilities have been revalued at 27%.

The effective tax rate is the tax charge (or credit) on the face of the income statement expressed as a percentage of the profit (or loss) before tax. In the year ended 31 December 2010, the effective tax rate is lower (2009: lower) than the standard rate of UK corporation tax primarily because circumstances have changed such that the Group is now making taxable profits, and it is envisaged that it will be possible to utilise brought forward tax losses. As set out in the financial review ITV uses an adjusted tax rate to show the cash tax impact on its adjusted earnings.

Taxation – Other comprehensive income

Within other comprehensive income a tax charge totalling £22 million (2009: credit of £101 million) has been recognised representing deferred tax. An analysis of this is included below in the deferred tax movement table.

Taxation – Statement of financial position

The table below outlines the deferred tax assets/(liabilities) that are recognised in the statement of financial position, together with their movements in the year:

	At 1 January 2010 £m	Recognised in the income statement £m	Recognised in equity £m	**At 31 December 2010 £m**
Property, plant and equipment	1	1	–	**2**
Intangible assets	(82)	17	–	**(65)**
Programme rights	2	–	–	**2**
Pension scheme deficits	122	(24)	(22)	**76**
Tax losses	–	50	–	**50**
Interest-bearing loans and borrowings, and derivatives	(1)	–	–	**(1)**
Share-based compensation	7	–	–	**7**
Unremitted earnings of subsidiaries, associates and joint ventures	(3)	3	–	**–**
Other	4	(2)	–	**2**
	50	45	(22)	**73**

	At 1 January 2009 £m	Recognised in the income statement £m	Recognised in equity £m	At 31 December 2009 £m
Property, plant and equipment	(15)	16	–	1
Intangible assets	(95)	13	–	(82)
Programme rights	4	(2)	–	2
Pension scheme deficits	49	(25)	98	122
Interest-bearing loans and borrowings, and derivatives	(1)	–	–	(1)
Share-based compensation	4	–	3	7
Unremitted earnings of subsidiaries, associates and joint ventures	(3)	–	–	(3)
Other	2	2	–	4
	(55)	4	101	50

At 31 December 2010, total deferred tax assets are £139 million (2009: £136 million) and total deferred tax liabilities are £66 million (2009: £86 million).

The deferred tax balance relating to:

– property, plant and equipment principally relates to timing differences arising on assets qualifying for capital allowances;

– intangible assets mainly relates to timing differences on intangible assets arising on business combinations;

– programme rights relates to timing differences on intercompany profits on stock;

– pension scheme deficits relates to timing differences on the IAS 19 pension deficit as well as the spreading of tax relief on one-off large pension funding payments;

– tax losses relates to timing differences in receiving the benefit of the group's tax losses;

– interest-bearing loans and borrowings and derivatives relates to timing differences on hedging instruments;

– share-based compensation relates to timing differences on share schemes;

– unremitted earnings of subsidiaries, associates and joint ventures relates to tax losses of associated companies; and

– other relates to timing differences on miscellaneous items including sale and leaseback arrangements and various provisions.

A deferred tax asset of £45 million in relation to carried forward loan relationship deficits of £168 million has been recognised after the utilisation in 2010 of part of the loan relationship deficits on which deferred tax was not recognised at 31 December 2009. Additionally a deferred tax asset of £5 million has been recognised in relation to other carried forward tax losses. The deferred tax on these losses has now been recognised as circumstances have changed such that the Group is now making taxable profits and it is envisaged that it will be possible to utilise these losses going forward.

The deferred tax balance associated with the pension deficit has been adjusted to reflect the current tax benefit obtained in the current year following the contribution of £171 million to the Group's defined benefit pension scheme.

A deferred tax asset of £602 million (2009: £625 million) in respect of capital losses of £2,230 million (2009: £2,230 million) has not been recognised due to uncertainties as to the amount and whether a capital gain will arise in the appropriate form and relevant territory against which such losses could be utilised. For the same reasons, deferred tax assets in respect of overseas losses of £9 million (2009: £10 million) that time expire between 2017 and 2026 have not been recognised.

2.4 Earnings per share

Earnings per share ('EPS') is the amount of post tax profit attributable to each share.

Basic EPS is calculated on the Group profit for the year attributable to equity shareholders of the parent company of £269 million (2009: £91 million) divided by 3,884 million (2009: 3,882 million) being the weighted average number of shares in issue during the year.

Diluted EPS takes into account the dilutive effect of all share options being exercised and assumes that the £135 million convertible bond is converted to shares in its entirety.

Basic EPS is adjusted in order to more accurately show the business performance of the Group in a consistent manner and reflect how the business is managed and measured on a day-to-day basis. Adjusted EPS is adjusted for exceptional items, impairment of intangible assets, amortisation of intangible assets acquired through business combinations, net financing cost adjustments and prior period and other tax adjustments.

The calculation of basic, diluted and adjusted EPS is set out below:

Basic earnings per share

	Ref.	2010 Basic £m	2010 Diluted £m
Profit for the year attributable to equity shareholders of the parent company		**269**	**270**
Weighted average number of ordinary shares in issue – million		**3,884**	**3,884**
Dilution impact of share options		**–**	**27**
Dilution impact of convertible bond	A	**–**	**192**
Total weighted average number of ordinary shares in issue – million		**3,884**	**4,103**
Earnings per ordinary share		**6.9p**	**6.6p**

	Ref.	2009 Basic £m	2009 Diluted £m
Profit for the year attributable to equity shareholders of the parent company		91	92
Weighted average number of ordinary shares in issue – million		3,882	3,882
Dilution impact of share options		–	13
Dilution impact of convertible bond	A	–	192
Total weighted average number of ordinary shares in issue – million		3,882	4,087
Earnings per ordinary share		2.3p	2.3p

Adjusted earnings per share

	Ref.	2010 Adjusted £m	2010 Diluted £m
Profit for the year attributable to equity shareholders of the parent company		**269**	**270**
Exceptional items	B	**(14)**	**(14)**
Profit for the year before exceptional items		**255**	**256**
Amortisation and impairment of acquired intangible assets	C	**35**	**35**
Adjustments to net financing costs	D	**4**	**4**
Other tax adjustments	E	**(47)**	**(47)**
Adjusted profit	F	**247**	**248**
Total weighted average number of ordinary shares in issue – million		**3,884**	**4,103**
Adjusted earnings per ordinary share		**6.4p**	**6.0p**

	Ref.	2009 Adjusted £m	2009 Diluted £m
Profit for the year attributable to equity shareholders of the parent company		91	92
Exceptional items	B	41	41
Profit for the year before exceptional items		132	133
Amortisation and impairment of acquired intangible assets	C	37	37
Adjustments to net financing costs	D	9	9
Prior period tax adjustments		(82)	(82)
Other tax adjustments	E	(26)	(26)
Adjusted profit	F	70	71
Total weighted average number of ordinary shares in issue – million		3,882	4,087
Adjusted earnings per ordinary share		1.8p	1.7p

A – Diluted earnings per share are impacted by the £135 million 2016 Convertible Eurobond issued in November 2009.

B – The exceptional items detailed in Section 2.2 are adjusted to reflect profit for the year before exceptional items. The 2010 exceptional items include a related tax effect of a charge of £5 million (2009: charge of £21 million).

C – Amortisation and impairment of acquired intangible assets of £48 million (2009: £51 million) is adjusted, including a related tax credit of £13 million (2009: £14 million). The rationale for adjustments to amortisation of intangibles is provided in the Financial and performance review.

D – Adjustments to net financing costs of £6 million (2009: £12 million) includes a related tax effect of a credit £2 million (2009: credit of £3 million). The rationale for adjustments made to financing costs is provided in the Financial and performance review.

E – Other tax adjustments reflect the reversal of the credit arising from the recognition of the deferred tax asset generated on certain losses partially offset by those losses utilised in the current year.

F – Adjusted profit is defined as profit for the year before exceptional items, amortisation and impairment of acquired intangible assets, net financing cost adjustments and other tax adjustments.

Section 3 Operating assets and liabilities

This section shows the assets used to generate the Group's trading performance and the liabilities incurred as a result. Liabilities relating to the Group's financing activities are addressed in section 4. Deferred tax assets and liabilities are shown in section 2.3.

On the following pages there are sections covering working capital, non-current assets, other payables due after more than one year, provisions and pensions.

3.1 Working capital

Working capital represents the assets and liabilities the Group generates through its trading activity. The Group therefore defines working capital as distribution rights, programme rights and other inventory, trade and other receivables and trade and other payables.

Careful management of working capital is vital as it ensures that the Group can meet its trading and financing obligations within its ordinary operating cycle. One of the Group's key performance indicators is 'profit to cash' conversion; the effective management of working capital will help meet the Group target that its 'profit to cash' ratio on a rolling three year basis is at least 90%.

In the following section you will find further information regarding working capital management and analysis of the elements of working capital.

Accounting policies

Distribution rights

'Distribution rights' are programme rights acquired from producers primarily for the purposes of commercial exploitation through onward distribution to customers, principally through licensing to broadcasters, and are classified as non-current assets as these rights are used to derive long-term economic benefit for the Group.

Distribution rights are recognised initially at cost and charged through operating costs in the income statement over a maximum five year period that is dependent on cumulative sales and program genre, or based on forecast future sales. Certain film rights are expensed over a period of up to 10 years reflecting the estimated longer period over which these types of rights can be exploited. These estimates are based on historical experience with similar rights as well as anticipation of future events. Advances paid for the acquisition of distribution rights are disclosed as distribution rights as soon as they are contracted. These advances are not expensed until the programme is available for distribution. Up to that point they are assessed annually for impairment through the reassessment of the future sales expected to be earned from that title.

Programme rights and other inventory

Where programming, sports rights and film rights are acquired for the primary purpose of broadcasting, these are recognised within current assets.

Assets are recognised when the Group controls the respective assets and the risks and rewards associated with them. For acquired programme rights, assets are recognised as payments are made and are recognised in full when the programme is available for transmission. Programmes produced internally, either for the purpose of broadcasting or to be sold in the normal course of the Group's operating cycle, are recognised within current assets at production cost.

Programme costs and rights, including those acquired under sale and leaseback arrangements are generally expensed to operating costs in full on first transmission. However, film rights and certain acquired programmes are expensed over a number of transmissions reflecting the pattern in which the right is consumed.

Programme costs and rights not yet written off are included in the statement of financial position at the lower of cost and net realisable value. In assessing net realisable value for programmes in production, consideration is given to the contracted sales price and estimated costs to complete. For programme stock, sports rights and film rights, the net realisable value assessment is based on estimated airtime value, with consideration given to whether the number of transmissions purchased can be efficiently played out over the licence period. Any reversals of write downs for programme costs and rights are recognised as a reduction in operating costs.

Historically, ITV has entered into sale and leaseback agreements in relation to certain programme titles. Related outstanding sale and leaseback obligations, which comprise the principal and accrued interest, are included within borrowings. The finance related element of the agreement is charged to the income statement over the term of the lease on an effective interest basis. Sale and leaseback obligations are secured against an equivalent cash balance held within cash and cash equivalents.

Trade receivables

Trade receivables are recognised initially at the value of the invoice sent to the customer and subsequently at the amounts considered recoverable (amortised cost). Where payments are not due for more than one year, they are shown in the financial statements at their net present value to reflect the economic cost of delayed payment. The Group provides goods and services to substantially all its customers on credit terms.

Estimates are used in determining the level of receivables that will not, in the opinion of the directors, be collected. These estimates include such factors as historical experience, the current state of the UK and overseas economies and industry specific factors. A provision for impairment of trade receivables is established when there is sufficient evidence that the Group will not be able to collect all amounts due.

The carrying value of trade receivables is considered to approximate fair value.

Trade payables

Trade payables are recognised at the value of the invoice received from a supplier.

The carrying value of trade payables is considered approximate to fair value.

Working capital management

Cash and working capital management continues to be a key focus. During the year the cash inflow from working capital was £99 million (2009: £121 million) as follows:

	2010 £m	2009 £m
Decrease in programme rights and other inventory and distribution rights	**108**	125
(Increase)/decrease in receivables	**(8)**	11
(Decrease) in payables	**(1)**	(15)
Working capital inflow	**99**	121

The majority of the working capital improvement came through reduced inventory levels for programme and distribution rights, as a result of managing commitments and just-in-time commissioning.

3.1.1 Distribution rights

Movements in distribution rights during the year are shown in the table below:

	2010 £m	2009 £m
Cost:		
At 1 January	**99**	82
Additions	**12**	17
At 31 December	**111**	99
Charged to income statement:		
At 1 January	**83**	69
Expense for the year	**16**	14
At 31 December	**99**	83
Net book value	**12**	16

3.1.2 Programme rights and other inventory

The programme rights and other inventory at the year-end are shown in the table below:

	2010 £m	2009 £m
Acquired films	**170**	207
Production	**52**	48
Commissions	**36**	73
Sports rights	**21**	23
Prepayments	**4**	36
Other	**1**	1
	284	388

Programme rights and other inventory written off in the year was £3 million (2009: £11 million). There have been no reversals relating to inventory previously written down to net realisable value (2009: £nil).

3.1.3 Programme commitments

There are operating commitments in respect of programming entered into in the ordinary course of business with programme suppliers, sports organisations and film distributors in respect of rights to broadcast on the ITV network. Commitments in respect of these purchases, which are not reflected in the statement of financial position, are due for payment as follows:

	2010 £m	2009 £m
Within one year	**396**	377
Later than one year and not more than five years	**315**	396
	711	773

3.1.4 Trade and other receivables

Trade and other receivables can be analysed as follows:

	2010 £m	2009 £m
Due within one year:		
Trade receivables	**354**	353
Other receivables	**14**	22
Prepayments and accrued income	**74**	57
	442	432
Due after more than one year:		
Trade receivables	**6**	7
	6	7
Total trade and other receivables	**448**	439

£360 million (2009: £360 million) of total trade receivables that are not impaired are aged as follows:

	2010 £m	2009 £m
Current	**301**	230
Up to 30 days overdue	**7**	43
Between 30 and 90 days overdue	**1**	8
Over 90 days overdue	**51**	79
	360	360

With a focus on cash collection, the aging of trade receivables has improved significantly in the year. The £51 million balance over 90 days overdue principally relates to non-consolidated licensee customers.

As at 31 December 2010, trade receivables of £8 million (2009: £8 million) were provided against. Movements in the Group's provision for impairment of trade receivables can be shown as follows:

	2010 £m	2009 £m
At 1 January	**8**	14
Charged during the year	**5**	4
Receivables written off during the year as uncollectible (utilisation of provision)	**(1)**	(6)
Unused amounts reversed	**(4)**	(4)
At 31 December	**8**	8

Trade receivables that are less than 90 days overdue are not usually considered impaired. The majority of the £8 million provision is therefore held against trade receivables that are over 90 days overdue.

Trade receivables of £59 million (2009: £130 million) were past due but not impaired. Of this, £55 million (2009: £88 million) relates to non-consolidated licensee customers in the 'Broadcasting & Online' segment where the Group has supplier and customer relationships. Further amounts relating to these same customers of £12 million (2009: £1 million) and £5 million (2009: £7 million) are included in current trade receivables and other receivables respectively. There is also a credit of £49 million (2009: credit of £61 million) included in trade and other payables relating to these customers. The net balance due from non-consolidated licensees is therefore £23 million (2009: £35 million), the majority of which relates to STV Group plc.

3.1.5 Trade and other payables due within one year

Trade and other payables due within one year can be analysed as follows:

	2010 £m	2009 £m
Trade payables	**56**	83
Social security	**16**	13
Other payables	**183**	162
Accruals and deferred income	**417**	388
	672	646

3.1.6 Trade payables due after more than one year

Trade payables due after more than one year can be analysed as follows:

	2010 £m	2009 £m
Trade payables	**26**	31

This relates to film creditors for which payment is due after more than one year.

3.2 Property, plant and equipment

The following section shows the physical assets used by the Group to generate revenues and profits. These assets include office buildings and studios, as well as various items of equipment used in broadcast transmission, programme production and for support activities.

The cost of these assets is the amount initially paid for them. A depreciation expense is charged to the income statement to reflect annual wear and tear and the reduced value of the asset. Depreciation is calculated by estimating the number of years the Group expects the asset to be used (useful economic life). If there has been a technological change or decline in business performance the directors review the value of assets to ensure they have not fallen below their depreciated value. If an asset's value falls below its depreciated value an additional one-off impairment charge is made against profit.

This section also explains the accounting policies followed by ITV and the specific estimates made in arriving at the net book value of these assets.

Accounting policies

Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation and impairment losses. Certain items of property, plant and equipment that were revalued to fair value prior to 1 January 2004, the date of transition to IFRS, are measured on the basis of deemed cost, being the revalued amount less depreciation up to the date of transition.

Leases

Finance leases are those which transfer substantially all the risks and rewards of ownership to the lessee. Assets held under such leases are included within property, plant and equipment and depreciated on a straight line basis over their estimated useful lives. Outstanding finance lease obligations, which comprise the principal plus accrued interest, are included within borrowings. The finance element of the agreements is charged to the income statement over the term of the lease on an effective interest basis.

All other leases are operating leases, the rentals on which are charged to the income statement on a straight line basis over the lease term.

Depreciation

Depreciation is provided to write off the cost of property, plant and equipment, less estimated residual value, on a straight line basis over their estimated useful lives. The annual depreciation charge is sensitive to the estimated useful life of each asset and the expected residual value at the end of its life. The major categories of property, plant and equipment are depreciated as follows:

Asset class	Depreciation policy
Freehold land	not depreciated
Freehold buildings	up to 60 years
Leasehold properties	shorter of residual lease term or 60 years
Leasehold improvements	shorter of residual lease term or estimated useful life
Vehicles, equipment & fittings	3 to 20 years

Impairment of assets

Property, plant and equipment that is subject to depreciation is reviewed annually for impairment or whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. Indicators of impairment may include changes in technology and business performance.

Property, plant and equipment

Property, plant and equipment can be analysed as follows:

	Freehold land and buildings	Improvements to leasehold land and buildings		Vehicles, equipment and fittings		Total
		Long	Short	Owned	Finance leases	
	£m	£m	£m	£m	£m	£m
Cost						
At 1 January 2009	49	69	20	241	15	394
Additions	–	–	–	14	–	14
Reclassification	5	(1)	–	(4)	–	–
Reclassification to assets held for sale	–	(14)	–	–	–	(14)
Disposals and retirements	–	(4)	–	(40)	–	(44)
At 31 December 2009	54	50	20	211	15	350
Additions	–	5	–	22	–	27
Reclassification	3	–	–	(3)	–	–
Reclassification to assets held for sale	–	(3)	–	(2)	–	(5)
Disposals and retirements	(5)	–	–	(3)	–	(8)
At 31 December 2010	**52**	**52**	**20**	**225**	**15**	**364**
Depreciation						
At 1 January 2009	–	13	8	149	4	174
Charge for the year	3	3	2	27	3	38
Impairment charge for the year (see note 2.2)	6	2	4	2	–	14
Reclassification	3	–	–	(3)	–	–
Reclassification to assets held for sale	–	(5)	–	–	–	(5)
Disposals and retirements	–	(1)	–	(31)	–	(32)
At 31 December 2009	12	12	14	144	7	189
Charge for the year	1	1	1	25	2	30
Impairment charge for the year (see note 2.2)	–	–	1	2	–	3
Reclassification to assets held for sale	–	(1)	–	–	–	(1)
Disposals and retirements	(5)	–	–	(3)	–	(8)
At 31 December 2010	**8**	**12**	**16**	**168**	**9**	**213**
Net book value						
At 31 December 2010	**44**	**40**	**4**	**57**	**6**	**151**
At 31 December 2009	42	38	6	67	8	161

Included within the book values above is expenditure of £9 million (2009: £3 million) on property, plant and equipment that is in the course of construction.

Capital commitments

There are £2 million of capital commitments at 31 December 2010 (2009: £1 million).

3.3 Intangible assets

The following section shows the non-physical assets used by the Group to generate the revenues and profits of the business.

These assets include goodwill, brands, customer contracts and relationships, licences, software development and film libraries. The cost of these is the amount that the Group has paid or, where there has been a business combination, the fair value of the identifiable intangible assets that can be sold separately or arise from legal rights. In the case of goodwill, the cost is the amount the Group has paid in acquiring a business in excess of the fair value of the individual assets and liabilities acquired. The value of goodwill is that 'intangible' value that comes from, for example, a uniquely strong market position and the outstanding productivity of its employees.

The value of intangible assets, with the exception of goodwill, is expensed to the income statement over the number of years the Group expects to use the asset, the useful economic life, via an annual amortisation charge. Where there has been a technological change or decline in business performance the directors review the value of assets to ensure they have not fallen below their amortised value. Should an asset's value fall below its amortised value an additional one-off impairment charge is made against profit.

This section explains the accounting policies followed by the Group and the specific estimates made in arriving at the net book value of these assets.

Accounting policies

Goodwill

Goodwill represents the future economic benefits that arise from assets that are not capable of being individually identified and separately recognised. The goodwill recognised by the Group has all arisen as a result of business combinations.

Due to changes in accounting standards, the goodwill shown on the Group's statement of financial position has been calculated using three different methods depending on the date of acquisition of the related business:

Method 1: All business combinations that have occurred since 1 January 2009 are accounted for by applying the acquisition method. Under this method, goodwill is measured as the fair value of the consideration transferred including the recognised amount of any non-controlling interests in the acquiree, less the net recognised amount at fair value of the identifiable assets acquired and liabilities assumed, all measured at the acquisition date . Subsequent adjustments to the fair values of net assets acquired can be made within 12 months of the acquisition date where original fair values were determined provisionally. These adjustments are accounted for from the date of acquisition. Acquisitions of non-controlling interests are accounted for as transactions with owners and therefore no goodwill is recognised as a result of such transactions. Transaction costs that the Group incurs in connection with a business combination, such as legal fees, due diligence fees and other professional and consulting fees, are expensed as incurred.

Method 2: All business combinations that occurred between 1 January 2004 and 31 December 2008 have been accounted for by applying the purchase method in accordance with IFRS 3 'Business Combinations (2004)'. Goodwill on these combinations represents the difference between the cost of the acquisition and the fair value of the identifiable net assets acquired and did not include the value of the non-controlling interest. Transaction costs that the Group incurred in connection with a business combination, such as legal fees, due diligence fees and other professional and consulting fees, are included in the cost of acquisition.

Method 3: For business combinations prior to 1 January 2004, goodwill is included at its deemed cost, which represents the amount recorded under UK GAAP at that time less amortisation up to 31 December 2003. The classification and accounting treatment of business combinations occurring prior to 1 January 2004, the date of transition to IFRS, has not been reconsidered as permitted under IFRS 1. Goodwill is stated at its recoverable amount being cost less any accumulated impairment losses and is allocated to cash generating units.

Other intangible assets

Other intangible assets are those that are identifiable and can be sold separately or which arise from legal rights.

Within ITV there are two types of intangible assets: those acquired and those that have been internally generated (such as software licences and development).

Other intangible assets acquired directly by the Group are stated at cost less accumulated amortisation. Those separately identified intangible assets acquired as part of a business combination are shown at fair value at the date of acquisition less accumulated amortisation.

The main intangible assets that the Group has been required to value are brands, licences and customer relationships and contracts.

The table below details the Group's valuation method on initial recognition, amortisation method and estimated useful life by class of intangible asset.

Class of intangible asset	Valuation method	Amortisation method	Estimated useful life
Brands	Applying a royalty rate to the expected future revenues over the life of the brand	Straight line	up to 11 years
Customer contracts and relationships	Expected future cash flows from those contracts and relationships existing at the date of acquisition are estimated. If applicable, a contributory charge is deducted for the use of other assets needed to exploit the cash flow. The net cash flow is then discounted back to present value.	Straight line	up to 6 years for customer contracts 5 to 10 years for customer relationships
Licences	Start-up basis of expected future cash flows existing at the date of acquisition. If applicable, a contributory charge is deducted for the use of other assets needed to exploit the cash flow. The net cash flow is then discounted back to present value.	Straight line	11 to 17 years depending on term of license
Software licences and development*	Initially at cost and subsequently at cost less accumulated amortisation	Straight line	1 to 5 years
Film libraries	Initially at cost and subsequently at cost less accumulated amortisation	Sum of digits	20 years

*Internally generated software development costs in relation to itv.com are expensed as incurred.

In determining the fair value of intangible assets arising on acquisition, the directors are required to make estimates regarding the timing and amount of future cash flows to be derived from exploiting the assets being acquired. These cash flows are then discounted using an appropriate discount rate. Such estimates are based on current budgets and forecasts, extrapolated for an appropriate period taking into account growth rates, expected changes to selling prices, operating costs and the expected useful lives of assets following purchase. Judgements are also made regarding whether and for how long licences will be renewed, and this drives our amortisation policy for those assets. The directors estimate the appropriate discount rate using pre tax rates that reflect current market assessments of the time value of money and the risks specific to the businesses being acquired.

Amortisation

Amortisation is charged to the income statement over the estimated useful lives of intangible assets unless such lives are judged to be indefinite. Indefinite life assets, such as goodwill, are not amortised but are tested for impairment at each year-end.

Impairment

Goodwill is not subject to amortisation and is tested annually for impairment and when circumstances indicate that the carrying value may be impaired.

Other intangible assets are subject to amortisation and are reviewed for impairment whenever events or changes in circumstances indicate that the amount carried in the statement of financial position is less than its recoverable amount.

Any impairment is recognised in the income statement. Impairment is determined for goodwill by assessing the recoverable amount of each asset or cash-generating unit (or group of cash-generating units) to which the goodwill relates. Assets are grouped at the lowest levels for which there are separately identifiable cash flows ('cash generating unit' or 'CGU').

The recoverable amount is the higher of an asset's fair value less costs to sell and 'value in use'. The value in use is based on the discounted present value of the future cash flows expected to arise from the CGU to which the asset relates. Growth assumptions assumed as part of the transformation plan are not included in the estimated future cash flows used for impairment testing.

Estimates are used in deriving these cash flows and the discount rate. Such estimates reflect current market assessments of the risks specific to the asset and the time value of money. The estimation process is complex due to the inherent risks and uncertainties. If different estimates of the projected future cash flows or a different selection of an appropriate discount rate or long-term growth rate were made, these changes could materially alter the projected value of the cash flows of the asset, and as a consequence materially different amounts would be reported in the financial statements.

Impairment losses in respect of goodwill are not reversed. In respect of assets other than goodwill, an impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

Intangible assets

Intangible assets can be analysed as follows:

	Goodwill £m	Brands £m	Customer contracts and relationships £m	Licences £m	Software licences and development £m	Film libraries and other £m	Total £m
Cost							
At 1 January 2009	3,484	200	338	121	46	84	4,273
Additions	–	–	–	–	13	–	13
Reclassification to assets held for sale	(115)	(26)	(8)	–	–	(3)	(152)
Disposals	(4)	(1)	(2)	–	(7)	(2)	(16)
At 31 December 2009	3,365	173	328	121	52	79	4,118
Additions	–	–	–	–	2	–	2
At 31 December 2010	**3,365**	**173**	**328**	**121**	**54**	**79**	**4,120**
Amortisation and impairment							
At 1 January 2009	2,735	86	234	38	9	31	3,133
Charge for the year	–	17	21	9	8	4	59
Reclassification to assets held for sale	(81)	(9)	(5)	–	–	(2)	(97)
Disposals	–	–	(1)	–	(5)	(1)	(7)
At 31 December 2009	2,654	94	249	47	12	32	3,088
Charge for the year	–	16	20	9	15	3	63
At 31 December 2010	**2,654**	**110**	**269**	**56**	**27**	**35**	**3,151**
Net book value							
At 31 December 2010	**711**	**63**	**59**	**65**	**27**	**44**	**969**
At 31 December 2009	711	79	79	74	40	47	1,030

There has been no movement in the net book value of goodwill in the current year. The 2009 net movement in goodwill of £38 million resulted from the transfer of £34 million to assets held for sale regarding Friends Reunited and £4 million from the disposal of Enable Media Limited.

Also included within the book values above is expenditure of £1 million (2009: £6 million) on software that is in the course of development.

Goodwill impairment tests

The following CGUs represent the carrying amounts of goodwill.

	2010 £m	2009 £m
Broadcasting & Online	**328**	328
SDN	**76**	76
ITV Studios	**307**	307
	711	711

There has been no impairment charge for the year (2009: nil).

When assessing impairment, the recoverable amount of each CGU is based on value in use calculations. These calculations require the use of estimates, specifically: pre-tax cash flow projections; long-term growth rates; and a pre-tax market discount rate.

Cash flow projections are based on the Group's current five-year plan. Beyond the five-year plan these projections are extrapolated using an estimated long-term growth rate of 1%–2.5% (2009: 1%–2.5%) depending on the CGU. The growth rates used are consistent with the long-term average growth rates for the industry and are appropriate because these are long-term businesses.

A pre-tax market discount rate of 11.8% (2009: 12.9%) has been used in discounting the projected cash flows for each CGU. The discount rate has been revised to reflect the latest market assumptions for the Risk Free-rate, the Equity Risk Premium and the net cost of debt.

Management believes that a consistent discount rate can be applied to all CGUs, due to the similarity of the risk factors affecting them and their geographical spread. There is currently no reasonably possible change in discount rate that would reduce the headroom in any CGU to zero.

Broadcasting & Online

As a result of the strategic review, the Group reconsidered the appropriate level to test goodwill impairment during the year and concluded that the Broadcasting, GMTV and Online CGUs previously assessed separately are a single CGU, 'Broadcasting & Online'. These businesses jointly rely on the ITV licences, brands and content to generate cash inflows. This classification is consistent with the Broadcasting & Online operating segment and is the level at which management monitor goodwill.

The goodwill in this CGU arose as a result of the acquisition of broadcasting businesses since 1999, the largest of which were the acquisition by Granada of United News and Media's broadcast businesses in 2000 and the merger of Carlton and Granada in 2004 to form ITV plc.

No impairment charge arose in the Broadcasting & Online CGU during the course of 2010 (2009: nil), due to the improvement of the advertising market in 2010 and the cost savings achieved in 2009. Management believe that currently no reasonably possible change in the advertising market would reduce the headroom in this CGU to zero.

The main assumptions on which the forecast cash flows projections for this CGU are based include; the television share of the advertising market, share of commercial impacts, and programme and other costs.

The key assumption in assessing the recoverable amount of Broadcasting & Online goodwill is the size of the TV advertising market. In forming its assumptions about the TV advertising market, the Group has used a combination of long-term trends, industry forecasts and in-house estimates, which place greater emphasis on recent experience. These are broadly in the range of –3% to +3% for 2011 and 0% to +4% for 2012, with the Group's assumptions at the cautious end of these ranges. It is also assumed that ITV renews its broadcasting licences in 2014.

SDN

The goodwill in this CGU arose on the acquisition of SDN (the licence operator for DTT Multiplex A) in 2005 and represented the wider strategic benefits of the acquisition to ITV plc. The strategic benefits were principally the enhanced ability to promote Freeview as a platform, business relationships with the channels which are on Multiplex A and additional capacity available from 2010.

No impairment charge arose in the SDN CGU during the course of 2010 (2009: nil).

The main assumptions on which the forecast cash flows are based are income to be earned from medium-term contracts and the market price of available multiplex video streams in the period up to and beyond digital switch over. These assumptions have been determined by using a combination of current contract terms, recent market transactions and in-house estimates of video stream availability and pricing. It is also assumed that the Multiplex A licence is renewed to 2022.

Management believe that currently no reasonably possible change in the income and availability assumptions would reduce the headroom in this CGU to zero.

ITV Studios

The goodwill in this CGU arose as a result of the acquisition of production businesses since 1999, the largest of which were the acquisition by Granada of United News and Media's production businesses in 2000 and the merger of Carlton and Granada in 2004 to form ITV plc.

No impairment charge arose in the ITV Studios CGU during the course of 2010 (2009: nil).

The key assumptions on which the forecast cash flows were based include revenue (including the share of total network programme budget obtained) and margin growth. These assumptions have been determined by using a combination of extrapolation of historical trends within the business, industry estimates and in-house estimates of growth rates in all markets.

Management believe that currently no reasonably possible change in the revenue and margin assumptions would reduce the headroom in this CGU to zero.

3.4 Assets held for sale, acquisitions and disposals

The following section outlines what the Group is either holding for sale, has acquired, or has disposed of in the year.

Accounting policies

Non-current assets or disposal groups are classified as held for sale if: their carrying amount will be recovered principally through sale, rather than continuing use; they are available for immediate sale; and, the sale is highly probable. A disposal group consists of assets that are to be disposed of, by sale or otherwise, in a single transaction together with the directly associated liabilities. The group includes goodwill acquired in a business combination if the disposal group is a cash-generating unit to which goodwill has been allocated.

On initial classification as held for sale, non-current assets or components of a disposal group are re-measured in accordance with the Group's accounting policies. Thereafter generally the assets or disposal groups are measured at the lower of their carrying amount and fair value less costs to sell. Any impairment on a disposal group is first allocated to goodwill and then to remaining assets and liabilities on a pro-rata basis, except to programming rights and other inventory, financial assets and deferred tax assets, which continue to be measured in accordance with the Group's accounting policies. Impairment on initial classification as held for sale and subsequent gains or losses on re-measurement are recognised in the income statement. Gains are not recognised in excess of any cumulative impairment.

No amortisation or depreciation is charged on non-current assets (including those in disposal groups) classified as held for sale. Assets classified as held for sale are disclosed separately on the face of the statement of financial position and classified as current assets or liabilities, with disposal groups being separated between assets held for sale and liabilities held for sale.

Disposal groups are classified as discontinued operations where they represent a major line of business or geographical area of operations.

The income statement for the comparative period is re-presented to show the discontinued operations separate from the continuing operations.

Disposals

All disposals were included within assets held for sale in 2009.

The Group disposed of its 100% interest in Friends Reunited Holdings Limited on 25 March 2010 to Brightsolid Online Innovation Limited (a wholly owned subsidiary of D.C. Thompson Limited) for a cash consideration of £27 million. The sale resulted in no material gain or loss on disposal in 2010.

The Group disposed of its 50% interest in Screenvision US (Technicolor Cinema Advertising LLC) on 14 October 2010 for a total consideration of $80 million (£50 million). Consideration of $75 million (£47 million) has been received resulting in a gain on disposal of £4 million. $5 million (£3 million) is contingent on contractual commitments.

The Group disposed of its long leasehold interest in properties at Birmingham and Bristol on the 12 August 2010 and 23 August 2010 respectively for a total consideration of £7 million resulting in a net £1 million loss on sale.

Assets held for sale

The £3 million included in assets held for sale relates to property, plant and equipment (2009: £78 million related to the Group's investments in Screenvision US and Friends Reunited as well as certain properties). The movement in assets held for sale since 1 January 2010 is summarised in the table below:

	2010 £m
At 1 January 2010	**78**
Transfer from property, plant and equipment	**4**
Net repayment of loans from Screenvision US	**(4)**
Disposal of Screenvision US	**(39)**
Disposal of Friends Reunited	**(28)**
Disposal of properties held for sale	**(8)**
At 31 December 2010	**3**

The movements in liabilities held for sale since 1 January 2010 is summarised in the table below:

	2010 £m
At 1 January 2010	**(3)**
Disposal of Friends Reunited	**3**
At 31 December 2010	**–**

During the year the Group began actively marketing property that is surplus to requirements and disposal is anticipated to be completed within one year. Property was transferred from property, plant and equipment at a net book value of £4 million. The property in Bedford, classified as an asset held for sale in prior periods, continues to be classified as such, since it continues to be actively marketed.

3.5 Provisions

A provision is recognised by the Group where an obligation exists, relating to events in the past, and it is probable that cash will be paid to settle it.

A provision is made where the Group is not certain how much cash will be required to settle a liability, so an estimate is made. The main estimates relate to the cost of holding properties that are no longer in use by the Group and contracts the Group has entered into that are now unprofitable.

Accounting policies

A provision is recognised in the statement of financial position when the Group has a present legal or constructive obligation arising from past events, it is probable cash will be paid to settle it and the amount can be estimated reliably. Provisions are determined by discounting the expected future cash flows by a rate that reflects current market assessments of the time value of money and the risks specific to the liability. The unwinding of the discount is recognised as a financing cost in the income statement. These provisions are estimates for which the amount and timing of actual cash flows are dependent on future events.

Provisions

The movements in provisions during the year are as follows:

	Contract provisions £m	Restructuring provisions £m	Property provisions £m	Other provisions £m	Total £m
At 1 January 2010	35	8	17	16	76
Addition/(release)	(1)	5	(6)	–	(2)
Unwind of discount	1	–	1	–	2
Utilised	(15)	(8)	(4)	–	(27)
At 31 December 2010	**20**	**5**	**8**	**16**	**49**

The table includes provisions of £34 million that are classified as current liabilities (2009: £47 million).

Contract provisions are for onerous sports rights commitments and are expected to be utilised over the remaining contract period.

Restructuring provisions are in respect of previously announced efficiency programmes and are expected to be utilised within one year. The amount utilised in 2010 was the remaining provision from 2009.

Property provisions principally relate to onerous lease contracts due to empty space created by the significant reduction in headcount in 2009. Utilisation of the provision will be over the anticipated life of the leases or earlier if exited.

Other provisions of £16 million mainly relate to potential liabilities that may arise as a result of Boxclever having been placed into administration, most of which relate to pension arrangements.

3.6 Pensions

In this section we explain the accounting policies governing the Group's treatment of the pension schemes that ITV have in place, followed by analysis of the deficit on the defined benefit pension scheme and how this has been calculated.

The Group has offered its employees the opportunity to participate in a number of defined benefit schemes. However, these schemes are now closed to new members. The Group continues to offer employees the defined contribution pension scheme and where taken up makes payments into this scheme on their behalf.

The Group is required to disclose in the statement of financial position the net of the defined benefit pension assets and liabilities representing the Group's present obligation to its past and current employees. In the event of a net liability the directors are obliged to determine how this deficit will be addressed. The assets are calculated at fair value and the obligations are measured by discounting the best estimate of future cash flows to be paid out by the scheme. The Group discloses the assets and obligations of the scheme and the assumptions used to calculate these. The detailed disclosures and are included in the section below. In addition we have placed text boxes to explain some of the technical terms used in the disclosure.

Accounting policies

Defined contribution schemes

Obligations under the Group's defined contribution schemes are recognised as an operating cost in the income statement as incurred.

Defined benefit schemes

The Group's obligation in respect of defined benefit pension schemes is calculated separately for each scheme by estimating the amount of future benefit that employees have earned in return for their service in the current and prior periods. That benefit is discounted to determine its present value and the fair value of scheme assets is then deducted. The discount rate used is the yield at the valuation date on high quality corporate bonds.

The Group takes advice from independent actuaries relating to the appropriateness of the assumptions which include life expectancy of members, expected salary and pension increases, inflation and the return on scheme assets. It is important to note that comparatively small changes in the assumptions used may have a significant effect on the income statement and statement of financial position.

The liabilities of the defined benefit scheme are measured by discounting the best estimate of future cash flows to be paid out by the scheme using the projected unit method. This method is an accrued benefits valuation method in which the scheme liabilities make allowance for projected earnings. These calculations are performed by a qualified actuary.

Actuarial gains and losses are recognised in full in the period in which they arise through the statement of comprehensive income.

Unfunded schemes in relation to previous directors are accounted for under IAS 19. Assets are held outside of the pension scheme in the form of gilts included within cash and cash equivalents.

The Group's pension schemes

Under the defined contribution schemes, the Group pays fixed contributions into a separate fund on behalf of the employee and has no further obligations to employees. The risks and rewards associated with this type of scheme are assumed by the members rather than the employer.

In a defined benefit scheme the employer underwrites investment, mortality and inflation risks. In the event of poor returns the employer needs to address this through a combination of increased levels of contribution or by making adjustments to the scheme. Schemes can be funded where regular cash contributions are made by the employer into a fund which is invested, or unfunded where no regular money or assets are put aside to cover future payments. The main ITV schemes are funded.

Under the defined benefit scheme, the Group has an obligation to provide the member with future benefits in the form of cash payments. The Group makes contributions to the ITV Pension Scheme, a separate trustee-administered fund that is not consolidated in these financial statements, but is reflected on the defined benefit pension deficit line on the statement of financial position. The pension trustees manage and invest the assets of the scheme. The trustees of the fund are required to act in the best interest of the fund's beneficiaries. The appointment of trustees to the fund is determined by the scheme's documentation.

In an unfunded scheme the Group is responsible for holding assets to meet pension obligations.

The following section outlines the key elements of the Group's defined contribution and defined benefit schemes during the year and as at the 31 December 2010.

Defined contribution schemes

Total contributions recognised as an expense in relation to defined contribution schemes during 2010 were £6 million (2009: £4 million). This is the default scheme for all new employees.

Defined benefit schemes

The Group's main scheme was formed from a merger of a number of schemes on 31 January 2006. The level of retirement benefit is principally based on pensionable salary at retirement.

The Group's main scheme consists of three sections, A, B and C. The first triennial valuation of section A was completed as at 1 January 2008 by an independent actuary for the Trustees of the ITV Pension Scheme and the next triennial valuation of this section is being undertaken as at 1 January 2011. The first triennial valuation of sections B and C were completed as at 1 January 2007 and the next triennial valuation of these sections as at 1 January 2010 is in progress. The Group will monitor funding levels annually.

The defined benefit pension deficit

The defined benefit pension deficit at 31 December 2010 was £313 million (2009: £436 million).

The assets and liabilities of the scheme are recognised in the consolidated statement of financial position and shown within non-current liabilities. The total recognised in the current and previous years are:

	2010 £m	2009 £m	2008 £m	2007 £m	2006 £m
Total defined benefit scheme obligations	**(2,746)**	(2,687)	(2,339)	(2,603)	(2,657)
Total defined benefit scheme assets	**2,433**	2,251	2,161	2,491	2,372
Net amount recognised within the consolidated statement of financial position	**(313)**	(436)	(178)	(112)	(285)

Addressing the deficit

The statutory funding objective is that the scheme has sufficient and appropriate assets to pay its benefits as they fall due. This is a long-term target. Future contributions will always be set at least at the level required to satisfy the statutory funding objective. The general principles adopted by the trustees are that the assumptions used, taken as a whole, will be sufficiently prudent for pensions and benefits already in payment to continue to be paid, and to reflect the commitments which will arise from members' accrued pension rights.

The levels of ongoing contributions to the defined benefit schemes are based on the current service costs (as assessed by the scheme trustees) and the expected future cash flows of the scheme. Normal employer contributions into the schemes in 2011 for current service are expected to be in the region of £10 million (2010: £9 million) assuming current contribution rates continue as agreed with the scheme trustees. From July 2010, these figures include member contributions paid by the employer under a salary sacrifice arrangement. In addition, the following deficit funding payments are expected for forthcoming years, these funding arrangements are fixed to 2014, regardless of the Section A valuation due to be completed in 2011. Sections B and C funding arrangements may vary:

- In 2011 the Group will make deficit funding contributions of £35 million.
- From 2012 the Group's annual contribution will be increased by £5 million, unless during the previous year the Group has implemented initiatives which reduce the Scheme's deficit by at least £10 million, compared with the level absent such initiatives.
- In addition from 2012, if the Group's reported EBITA before exceptional items for the year ended 31 December 2011 exceed £300 million, the Group will increase this contribution by an amount representing 10% of EBITA before exceptional items over this threshold level.
- As a result of the SDN pension partnership a further £8 million of annual deficit contributions will commence from 2011. Under the partnership arrangements, the Group has committed to making a payment to the Scheme of up to £150 million in 2022, if and to the extent that the Scheme remains in deficit at that time.

The Group estimates the average duration of UK scheme liabilities to be 15 years (2009: 14 years).

The remaining sections provide further detail of the value of scheme assets and liabilities, how these are accounted for and the impact on the income statement.

Total defined benefit scheme obligations

The defined benefit obligation (the pension scheme liabilities) may change due to the following:

- Current service cost/(credit) – changes in the present value of the obligation attributable to the members' current period's service. This is charged to operating costs in the income statement.
- Curtailment losses/gains – these occur when the Company is demonstrably committed to amend a scheme so that the benefits for future services are reduced or eliminated. A change in future benefits is treated as a curtailment and recognised in operating costs in the income statement rather than an actuarial gain or loss recognised in equity, if the effect of the re-measurement is significant.
- Past service costs/(credits) – these occur when there is a change in the present value of the obligation, in respect of a member's prior period of service. These can arise due to changes in the benefit entitlement of members and are recognised through operating costs.
- Settlement gains – these occur when the Company enters into a transaction to eliminate all further legal or constructive obligations for some or all of the benefits provided by the plan. Settlement gains can arise from enhanced transfer values exercises, fully insuring benefits or on business disposals.
- Increase due to interest cost – this is the unwinding of the discount on the present value of the obligation. Broadly, it is determined by multiplying the discount rate at the beginning of the period by the present value of the obligation during the period. This is recognised through net financing costs in the income statement.
- Actuarial losses/gains – arise from differences between the actual and expected outcome in the valuation of the obligation. These can be experience adjustments, which are differences between the assumptions made and what actually occurred, or they can result from changes in assumptions. Actuarial gains and losses are recognised through retained losses within equity.
- Cash contributions/benefits paid – cash contributions by scheme participants will increase the obligations by the scheme whereas any benefits paid out by the scheme will lower the obligations of the scheme.

The movement in the present value of the defined benefit obligation for these schemes is analysed below:

	2010 £m	2009 £m
Defined benefit obligation at 1 January	**2,687**	2,339
Current service cost	**5**	7
Curtailment loss/(gain) (redundancies)	**1**	(2)
Operating exceptional curtailment gain (salary cap)	**–**	(72)
Past service cost (augmentations)	**–**	1
Operating exceptional past service credit (one off change to pension payment)	**(2)**	(38)
Operating exceptional past service credit (introduction of pensions payment change option)	**(25)**	–
Settlement (enhanced transfer values)	**(21)**	–
Interest cost	**149**	143
Net actuarial loss	**80**	439
Contributions by scheme participants	**2**	4
Benefits paid	**(130)**	(134)
Defined benefit obligation at 31 December	**2,746**	2,687

The present value of the defined benefit obligation is analysed between wholly unfunded and funded defined benefit schemes in the table below:

	2010 £m	2009 £m
Defined benefit obligation in respect of funded schemes	**2,709**	2,653
Defined benefit obligation in respect of wholly unfunded schemes	**37**	34
Total defined benefit obligation	**2,746**	2,687

Assumptions used to calculate the best estimate of future cash flows to be paid out by the scheme include: future salary levels, future pensionable salary levels, the estimate of increases in pension payments, the life expectations of members, the effect of inflation on all these factors and ultimately the discount rate used to estimate the present day fair value of these obligations.

When deciding on these assumptions the Group will take independent actuarial advice relating to the appropriateness of the assumptions.

The principal assumptions used in the scheme valuations at the year-end were:

	2010	2009
Discount rate for scheme liabilities	**5.40%**	5.70%
Inflation assumption	**3.40%**	3.40%
Rate of pensionable salary increases	**0.90%**	0.90%
Rate of increase in pension payment (LPI 5% pension increases)	**3.30%**	3.30%
Rate of increase to deferred pensions (CPI)	**2.90%**	3.40%

IAS 19 requires that the discount rate used be determined by reference to high quality fixed income investments in the UK that match the estimated term of the pension obligations. The discount rate has been based on the yield available on AA rated corporate bonds of a term similar to the liabilities.

The inflation assumption has been set by looking at the difference between the yields on fixed and index-linked Government bonds. The inflation assumption is used to calculate the remaining assumptions except where caps have been implemented as part of the Group's actions during 2009.

In July 2010, the UK Government announced changes to the inflation index used for statutory increases (both for pensions in payment and pensions in deferment) to apply to private sector pension schemes. This has resulted in an actuarial gain of £45 million during the period in respect of the ITV pension scheme.

In estimating the life expectancy of pension scheme members, the Group has used PA92 year of birth tables with medium cohort improvements, with a 1% per annum underpin and a one year age rating (i.e. tables are adjusted so that a member is assumed to be one year older than actual age). Using these tables the assumed life expectations on retirement are:

	2010	2010	2009	2009
Retiring today at age	**60**	**65**	60	65
Males	**26.6**	**21.7**	26.5	21.6
Females	**29.9**	**24.9**	29.8	24.8
Retiring in 20 yrs at age	**60**	**65**	60	65
Males	**28.6**	**23.5**	28.5	23.4
Females	**32.0**	**26.8**	31.9	26.7

The tables above reflect published mortality investigation data in conjunction with the results of investigations into the mortality experience of scheme members.

The sensitivities regarding the principal assumptions used to measure the defined benefit obligation are set out below:

Assumption	Change in assumption	Impact on scheme liabilities
Discount rate	Increase/decrease by 0.5%	Decrease/increase by 8% (£220 million)
Rate of inflation	Increase/decrease by 0.5%	Increase/decrease by 5% (£137 million)
Life expectations	Increase by 1 year	Increase by 2% (£55 million)

The sensitivities above consider the single change shown with the other assumptions assumed to be unchanged.

In practice, changes in one assumption may be accompanied by offsetting changes in another assumption (although this is not always the case). The Group's net pension deficit is the difference between the scheme liabilities and the scheme assets. Changes in the assumptions may occur at the same time as changes in the market value of scheme assets. These may or may not offset the change in assumptions. For example, a fall in interest rates will increase the scheme liability, but may also trigger an offsetting increase in the market value of certain scheme assets so there is no net effect on the Group's liability.

Total defined benefit scheme assets

Pension scheme assets are measured at their fair value and can change due to the following:

- The expected return on scheme assets is determined based on the market expectations at the beginning of the year and calculated as the expected percentage return multiplied by the fair value of the scheme assets. This expected return on scheme assets is recognised through net financing costs in the income statement.
- Actuarial gains and losses arise from differences between the actual and expected outcome in the valuation of the assets. These can be experience adjustments, which are differences between the assumptions made and what actually occurred, or they can result from changes in assumptions. For example differences in the actual asset performance versus the expected performance would be an actuarial gain/(loss). Actuarial gains and losses are recognised through retained losses within equity.
- Employer's contributions and cash contributions by scheme participants are paid into the scheme to be managed and invested.

The movement in the fair value of the defined benefit scheme assets is analysed below:

	2010 £m	2009 £m
Fair value of scheme assets at 1 January	**2,251**	2,161
Expected return on assets	**136**	128
Net actuarial gain	**147**	48
Employer contributions	**47**	44
Contributions by scheme participants	**2**	4
Settlement (enhanced transfer values)	**(20)**	–
Benefits and expenses paid	**(130)**	(134)
Fair value of scheme assets at 31 December	**2,433**	2,251

At 31 December 2010 the scheme assets were invested in a diversified portfolio that consisted primarily of equity and debt securities. The fair value of the scheme assets are shown below by major category:

	Market value 2010 £m	Market value 2009 £m
Market value of assets – equity-type assets	**901**	869
Market value of assets – bonds	**1,242**	1,263
Market value of assets – other	**290**	119
Total scheme assets	**2,433**	2,251

Exposure through the different asset classes is obtained through a combination of executing swaps and investing in physical assets. The trustees have a substantial holding of equity-type investments, mainly shares in listed and unlisted companies. The investment return related to these is variable, and they are generally considered 'riskier' investments. However, it is generally accepted that the yield on these investments will contain a premium to compensate investors for this additional risk. There is significant uncertainty about the likely size of this risk premium. In respect of overseas equity investments there is also a risk of unfavourable currency movements which the Group manage by hedging broadly 60% of the overseas investments against currency movements.

The trustees also hold corporate bonds and other fixed interest securities. The risk of default on these is assessed by various rating agencies. Some of these bond investments are issued by the UK Government. The risk of default on these is very small compared to the risk of default on corporate bond investments, although some risk may remain.

The expected return for each asset class is weighted based on the target asset allocation for 2011 to develop the expected long-term rate of return on assets assumption for the portfolio. The benchmark for 2011 is to hold broadly 47% equities and 53% bonds. The majority of the equities held by the scheme are in international blue chip entities. The aim is to hold a globally diversified portfolio of equities, with a target of broadly 22% of equities being held in UK and 78% of equities held overseas. Within the bond portfolio the aim is to hold 58% of the portfolio in government bonds (gilts) and 42% of the portfolio in corporate bonds and other fixed interest securities.

The expected rates of return on scheme assets by major category and target allocations are set out below:

	Expected long-term rate of return 2011 % p.a.	Planned asset allocation 2011 % of assets	Expected long-term rate of return 2010 % p.a.	Planned asset allocation 2010 % of assets
Equity and Property	7.8	47	8.1	47
Bonds	3.7 – 4.7	53	4.0 – 5.0	53

The expected yield on bond investments with fixed interest rates can be derived exactly from their market value. The actual return on the scheme's return seeking assets for the year ended 31 December 2010 was an increase of £283 million (2009: increase of £176 million).

Amounts recognised through the income statement

Amounts recognised through the income statement in the various captions are as follows:

	2010 £m	2009 £m
Amount charged to operating costs:		
Current service cost	**(5)**	(7)
Curtailment (loss)/gain (redundancies)	**(1)**	2
Past service cost (augmentations)	**–**	(1)
	(6)	(6)
Amount credited to operating income – exceptional items:		
Curtailment gain (salary cap)	**–**	72
Past service credit (one-off change to pensions payment)	**2**	38
Past service credit (introduction of pensions payment change option)	**25**	–
Settlement gain (enhanced transfer values)	**1**	–
	28	110
Amount (charged)/credited to net financing costs:		
Expected return on pension scheme assets	**136**	128
Interest cost	**(149)**	(143)
	(13)	(15)
Total credited in the consolidated income statement	**9**	89

Operating exceptional gains of £28 million, included above, were recognised in 2010 in relation to changes made to the ITV Pension Scheme. These included:

- a past service credit of £25 million in relation to the introduction of a member option to change pension payments at retirement
- a past service credit of £2 million in relation to the one off change to pension payments, and
- a settlement gain of £1 million in relation to the enhanced transfer value exercise.

Amounts recognised through the consolidated statement of comprehensive income/(cost)

The amounts recognised through the consolidated statement of comprehensive income/(cost) are:

	2010 £m	2009 £m
Actuarial gains and (losses):		
Arising on scheme assets	**147**	48
Arising on scheme liabilities	**(80)**	(439)
	67	(391)

The cumulative amount of actuarial gains and losses recognised through the consolidated statement of comprehensive income since 1 January 2004 is an actuarial loss of £252 million (2008: £319 million loss).

Included within actuarial gains and losses are experience adjustments as follows:

	2010 £m	2009 £m	2008 £m	2007 £m	2006 £m
Experience adjustments on scheme assets	**147**	48	(438)	15	32
Experience adjustments on scheme liabilities	**(3)**	–	–	(18)	(12)

Section 4 Capital structure and financing costs

The directors have to determine the appropriate capital structure of ITV specifically how much is raised from shareholders (equity) and how much is borrowed from financial institutions (debt) in order to finance the Group's activities both now and in the future.

The Board's focus during the year was on reducing net debt and improving the Group's credit rating. As these improvements continue the Board will review its policies on capital structure to support the Transformation Plan.

The Board is mindful that equity capital cannot be easily flexed and in particular raising new equity would only be likely in the context of an acquisition. Debt can be issued and repurchased more easily but there are high transaction costs in frequent adjustment and debt holders are under no obligation to accept any offer to repurchase.

This section outlines how the Group manages its capital. The Group considers its capital structure and dividend policy at least twice a year ahead of announcing results in the context of its ability to continue as a going concern and deliver its business plan. The Group focuses on leverage, credit ratings and interest cost, particularly when considering investment.

On the following pages there are sections on the Group's net debt, borrowings and held to maturity investments, derivative financial instruments, net financing costs, financial risk factors, fair value hierarchies, equity and share-based compensation.

The Group is not subject to any externally imposed capital requirements.

4.1 – Net debt

Net debt is the Group's key measure used to evaluate total outstanding debt net of the current cash resources.

In defining total outstanding debt the directors consider it appropriate to include the following:

- the currency impact of swaps held against those debt instruments;
- equity components of debt instruments; and
- the accounting impact on specific bonds due to the increase in coupon rates caused by the downgrade of ITV's investment status in August 2008.

Analysis of net debt

The table below analyses the Group's components of net debt and their movements in the year:

	1 January 2010 £m	Net cash flow and acquisitions £m	Currency and non-cash movements £m	**31 December 2010 £m**
Cash	479	282	–	**761**
Cash equivalents	103	(6)	2	**99**
Cash and cash equivalents	582	276	2	**860**
Cash held within the disposal group	4	(4)	–	**–**
Held to maturity investments	149	–	(1)	**148**
Loans and loan notes due within one year	(1)	1	(47)	**(47)**
Finance leases due within one year	(8)	8	(8)	**(8)**
Loans and loan notes due after one year	(1,366)	146	50	**(1,170)**
Finance leases due after one year	(65)	4	8	**(53)**
	(1,440)	159	3	**(1,278)**
Currency component of swaps held against Euro denominated bonds	108	–	(10)	**98**
Convertible bond equity component	(35)	–	4	**(31)**
Amortised cost adjustment	20	–	(5)	**15**
Net debt	(612)	431	(7)	**(188)**

Section 4 Capital structure and financing costs

	1 January 2009 £m	Net cash flow and acquisitions £m	Currency and non-cash movements £m	31 December 2009 £m
Cash	503	(20)	(4)	479
Cash equivalents	113	(11)	1	103
Cash and cash equivalents	616	(31)	(3)	582
Cash held within the disposal group	–	–	4	4
Held to maturity investments	–	150	(1)	149
Loans and loan notes due within one year	(252)	249	2	(1)
Finance leases due within one year	(7)	7	(8)	(8)
Loans and loan notes due after one year	(1,192)	(221)	47	(1,366)
Finance leases due after one year	(72)	–	7	(65)
	(1,523)	35	48	(1,440)
Currency component of swaps held against Euro denominated bonds	147	–	(39)	108
Convertible bond equity component	–	(36)	1	(35)
Amortised cost adjustment	30	–	(10)	20
Net debt	(730)	118	–	(612)

Cash and cash equivalents

Included within cash equivalents is £53 million (2009: £62 million), the use of which is restricted to meeting finance lease commitments under programme sale and leaseback commitments, and gilts of £36 million (2009: £34 million) over which the unfunded pension promises have a charge.

Held to maturity investments

In February 2009 ITV raised a net £50 million through a £200 million covenant free loan with a maturity of March 2019, secured against the purchase of 4.5% March 2019 gilts with a nominal value of £138 million (for a cost of £150 million). As at December 2010 this gilt has a carrying value of £148 million.

Loan and loan notes due within one year

During the course of the year ITV repurchased €63 million (£54 million) of the October 2011 bonds with €54 million (£47 million) remaining due within one year. In 2009 ITV repaid €195 million (£171 million) of this October 2011 bond and exchanged at par €188 million for the issuance at par of new bonds with a maturity of June 2014 and a coupon of 10%.

Loan and loan notes due after one year

In 2010 ITV conducted further repurchases of £42 million of the £425 million October 2015 bonds reducing the outstanding balance to £383 million. These bonds carry a coupon of 5.375%.

In December 2010 ITV repaid the remaining £50 million of the £125 million May 2013 loan (2009: £75 million repaid).

Included within loan notes due after one year is the £200 million covenant free loan raised in February 2009 with a maturity of March 2019. This loan is secured against the 4.5% March 2019 gilts with a nominal value of £138 million (for a cost of £150 million) described above. Interest on the loan is fixed at 6.75% for the first three years and a variable rate thereafter, depending in part on the performance of an interest rate algorithm. The interest mechanism on these instruments was adjusted during the year. The change was not significant and did not impact the accounting treatment. The lender has the option to increase this debt by £150 million.

In March 2009 ITV repaid its £250 million Eurobond.

Currency components of swaps held against euro denominated bonds

As at 31 December 2010 the currency element of the cross currency interest rate swaps is a £98 million asset (2009: £108 million asset) and this offsets the exchange rate movement of the 2011 and 2014 Euro denominated bonds. The interest element of the swap is a £10 million asset (2009: £12 million asset) resulting in an overall net asset total at 31 December 2010 of £108 million (2009: £120 million net asset total)

Convertible bond

In November 2009 ITV issued a £135 million convertible Eurobond with a maturity date of November 2016 and a coupon of 4%. As the bond contains an option for the issuer to convert a portion of the debt into ITV's equity, the components are treated as separate instruments. The accounting policy for this compound instrument is detailed in note 4.2.

The debt portion is £100 million (2009: £96 million) and is included within Loans and loan notes due after one year. The effective interest rate on the carrying value of the debt component is 9.4%. The equity component of £31 million (2009: £35 million) is shown separately.

Amortised cost adjustment

The purpose of the amortised cost adjustment is to exclude the impact of the coupon step-up on net debt. ITV's Standard & Poor's credit rating was lowered to BB+ in August 2008, resulting in a coupon step-up in the 2011 and 2017 bonds. The recalculation of the amortised cost carrying values as required by IAS 39 resulted in a non-cash increase in net debt of £30 million as at 31 December 2008. The accounting treatment unwinds this increase in future years as a reduction in interest expense. As this adjustment has no impact on the cash interest paid the interest charged to unwind the adjustment is excluded from net financing costs as described in the Financial and performance review.

4.2 Borrowings and held to maturity investments

The Group borrows money from financial institutions in the form of bonds and other financial instruments. These generally have fixed interest rates and are for a fixed term.

Some of these financial instruments are complex in that they require the Group to hold investments, of a lesser value, in assets that have fixed interest rates and a fixed maturity date.

The interest payable and receivable on these instruments is shown in the Net financing costs note in Section 4.4

Accounting policies

Borrowings

Borrowings are recognised initially at fair value including directly attributable transaction costs, with subsequent measurement at amortised cost using the effective interest rate method. Under the amortised cost method the difference between the amount initially recognised and the redemption value is recorded in the income statement over the period of the borrowing on an effective interest basis.

Where the Group has identified that the treatment of a borrowing (amortised cost) and its related derivative (fair value) result in a mismatch, the Group has adopted the fair value option within IAS 39 (revised) to eliminate this accounting mismatch. This is considered more appropriate than the amortised cost method as the movements in these financial instruments largely offset each other and, as a result, they are managed on an aggregated basis. The effect of this is that the Group recognises any such borrowings at fair value in all periods subsequent to initial recognition, with resultant gains or losses recorded in the income statement.

Compound financial instruments

Compound financial instruments are instruments that are classified as partly debt and partly equity due to the terms of the instrument.

The Group has one compound financial instrument which is a convertible note that can be converted to share capital at the option of the holder at maturity.

The liability component of a compound financial instrument is recognised initially at the fair value of a similar liability that does not have an equity conversion option. The equity component is recognised initially at the difference between the fair value of the compound financial instrument as a whole and the fair value of the liability component. Any directly attributable transaction costs are allocated to the liability and equity components in proportion to their initial carrying amounts.

Subsequent to initial recognition, the liability component of a compound financial instrument is measured at amortised cost using the effective interest method. The equity component of a compound financial instrument is not re-measured subsequent to initial recognition but is transferred to retained losses over the term of the instrument on an effective interest rate basis.

Held to maturity assets

Where the Group has the positive intent and ability to hold financial assets to maturity, they are classified as held to maturity. Held to maturity financial assets are recognised initially at fair value including any directly attributable transaction costs. Subsequent to initial recognition, held to maturity financial assets are measured at amortised cost using the effective interest method, less any impairment.

Borrowings and held to maturity investments

The table below analyses the Group's borrowings by when they fall due for payment:

			2010
	Loans and loan notes £m	**Finance leases £m**	**Total £m**
Current			
In one year or less, or on demand	**47**	**8**	**55**
Non-current			
In more than one year but not more than two years	**–**	**10**	**10**
In more than two years but not more than five years	**607**	**34**	**641**
In more than five years	**563**	**9**	**572**
	1,170	**53**	**1,223**
Total	**1,217**	**61**	**1,278**

			2009
	Loans and loan notes £m	Finance leases £m	Total £m
Current			
In one year or less, or on demand	1	8	9
Non-current			
In more than one year but not more than two years	106	9	115
In more than two years but not more than five years	316	39	355
In more than five years	944	17	961
	1,366	65	1,431
Total	1,367	73	1,440

Current loans and loan notes due within one year

Loans repayable in one year or less as at 31 December 2010 comprise an unsecured €54 million Eurobond (£47 million) which has a coupon of 6.0% and matures in October 2011. After cross currency swaps there is a net amount receivable in October 2011 of £16 million. In 2009 this bond was classified as due in more than one year but not more than two years.

Loans and loan notes repayable between two and five years

Loans repayable between two and five years as at 31 December 2010 includes an unsecured £110 million Eurobond which has a coupon of three-month sterling LIBOR plus 2.7% and matures in March 2013, an unsecured €188 million Eurobond (£126 million net of cross currency swaps) which has a coupon of 10.0% and matures in June 2014 and an unsecured £383 million Eurobond which has a coupon of 5.375% and matures in October 2015.

Loans and loan notes repayable after five years

Loans repayable after five years includes an unsecured £135 million convertible Eurobond which has a coupon of 4.0% and matures in November 2016, an unsecured £250 million Eurobond which has a coupon of 7.375% and matures in January 2017 and an unsecured bank loan for £200 million which has a coupon of 6.75% until March 2012 and a variable rate thereafter and matures in March 2019.

Fair values versus book value

The tables below provide fair value information for the Group's borrowings and held to maturing investments:

		Book value		Fair value	
Assets	Maturity	**2010 £m**	2009 £m	**2010 £m**	2009 £m
Held to maturity investments	Mar 19	**148**	149	**150**	143

The fair value of held to maturity investments is based on quoted market bid prices at the year-end.

		Book value		Fair value	
Liabilities	Maturity	**2010 £m**	2009 £m	**2010 £m**	2009 £m
€54 million Eurobond (previously €118 million Eurobond)	Oct 11	**47**	106	**48**	109
£110 million Eurobond	Mar 13	**110**	110	**109**	105
£50 million loan	May 13	**–**	50	**–**	58
€188 million Eurobond	Jun 14	**150**	156	**185**	187
£383 million Eurobond (previously £425 million Eurobond)	Oct 15	**347**	384	**373**	387
£135 million Convertible bond	Nov 16	**100**	96	**172**	147
£250 million Eurobond	Jan 17	**263**	264	**258**	240
£200 million loan	Mar 19	**200**	200	**269**	244
Other loans		**–**	1	**–**	1
		1,217	1,367	**1,414**	1,478

Fair value, which is determined for disclosure purposes, is calculated based on the present value of future principal and interest cash flows, discounted at the market rate of interest at the reporting date.

The book value of the 2011 Eurobond decreased in the year principally as a result of repurchases. After taking account of cross currency interest rate swaps ITV will receive a net £16 million at maturity.

The book value of the 2015 £383 million Eurobond decreased in the year as a result of repurchases.

The fair value of the £135 million Convertible bond is based upon the par value, whereas the bonds are accounted for partly as debt and partly as equity, net of issue costs, as described in note 4.1.

Finance leases

The following table analyses when finance lease liabilities are due for payment:

	2010			2009		
	Minimum lease payments £m	**Interest £m**	**Principal £m**	Minimum lease payments £m	Interest £m	Principal £m
In one year or less	**11**	**3**	**8**	12	4	8
In more than one year but not more than five years	**50**	**6**	**44**	58	10	48
In more than five years	**10**	**1**	**9**	18	1	17
	71	**10**	**61**	88	15	73

Finance leases principally comprise programmes under sale and leaseback arrangements and a contractual arrangement relating to the provision of news accounted for as a lease. The net book value of tangible assets held under finance leases at 31 December 2010 was £9 million (2009: £8 million).

4.3 Derivative financial instruments

A derivative is a financial instrument used to manage risk. Its value changes over time in response to underlying variables such as exchange rates or interest rates and is for a fixed period. In accordance with Board approved policies, the Group uses derivatives to manage its exposure to fluctuations in interest on its borrowings and foreign exchange rates. These policies are included within Section 4.5.

Derivative financial instruments are initially recognised as either assets or liabilities at fair value and are subsequently re-measured at fair value at each reporting date. Movements in instruments measured at fair value are recorded in the income statement in net financing costs.

Analysis of these derivatives and the various methods used to calculate their respective fair values is detailed in this section.

Accounting policies

The Group uses a limited number of derivative financial instruments to hedge its exposure to fluctuations in interest and foreign exchange rates. The Group does not hold or issue derivative instruments for speculative purposes.

Derivative financial instruments are initially recognised at fair value and are subsequently re-measured at fair value with the movement recorded in the income statement within net financing costs. Derivatives with a positive fair value are recorded as assets and negative fair values as liabilities.

The fair value of foreign currency forward contracts is determined by using the difference between the contract exchange rate and the quoted forward exchange rate at the reporting date. The fair value of interest rate swaps is the estimated amount that the Group would receive or pay to terminate the swap at the reporting date, taking into account current interest rates and the current creditworthiness of swap counterparties.

Third party valuations are used to fair value the Group's derivatives. The valuation techniques use inputs such as interest rate yield curves and currency prices/yields, volatilities of underlying instruments and correlations between inputs.

Where a derivative financial instrument is designated as a hedge of the variability in cash flows of a recognised asset or liability, or a highly probable forecast transaction, the effective part of any gain or loss on the derivative financial instrument is recognised directly in equity.

Any ineffective portion of the hedge is recognised immediately in the income statement.

For financial assets and liabilities classified at fair value through profit or loss the fair value change and interest income/expense are not separated.

Derivative financial instruments

The following table shows the fair value of derivative financial instruments analysed by type of contract.

	2010		2009	
	Assets £m	**Liabilities £m**	Assets £m	Liabilities £m
Current				
Interest rate swaps – fair value through profit or loss	**69**	**(3)**	3	(3)
Forward foreign exchange contracts – fair value through profit or loss	**–**	**–**	2	(1)
	69	**(3)**	5	(4)
Non-current				
Interest rate swaps – fair value through profit or loss	**89**	**(39)**	151	(30)
	158	**(42)**	156	(34)

Interest rate swap assets as at 31 December 2010 include £108 million of cross currency and interest rate swaps relating to the €54 million 2011 Eurobond and the €188 million 2014 Eurobond (see note 4.2).

The remaining £50 million of assets relate to a number of floating rate swaps. ITV has a £125 million swap matched against half of the 2017 £250 million bond. Under this swap ITV receives 6.125% (to match the original bond coupon) and pays three-month sterling LIBOR plus 0.51% with the three month sterling LIBOR capped at 5.25% for rates between 5.25% and 8.0%.

ITV also has a £162.5 million swap matched against part of the 2015 £383 million bond. Under this swap ITV receives 5.375% (to match the bond coupon) and pays six-month sterling LIBOR plus 0.3%.

ITV has other swaps totalling £162.5 million matched against part of the 2015 £383 million bond. Under these swaps ITV receives 5.375% (to match the bond coupon) and pays a weighted average of three-month sterling LIBOR plus 1.45%.

Interest rate swap liabilities of £42 million as at 31 December 2010 relate to various fixed and floating rate swaps. ITV has a £162.5 million swap with a maturity of October 2015 under which it receives three-month sterling LIBOR and pays 4.35%. The bank has the right to cancel the swap.

ITV has a £162.5 million swap with a maturity of October 2015 under which it receives six-month sterling LIBOR plus 0.3%, and pays the higher of six-month sterling LIBOR minus 0.2% or six-month US$ LIBOR minus 1.0%, set in arrears or in advance.

ITV has a £120.5 million swap with a maturity of October 2015 under which it receives 5.375% (to match the bond coupon) and pays the higher of six-month sterling LIBOR plus 2.905% or six-month US$ LIBOR plus 2.105%, set in arrears with a cap on payment of 8%.

ITV has a £125 million swap with a maturity of January 2017 under which it receives three-month sterling LIBOR and pays 4.31%. The bank has the right to cancel the swap.

ITV has a £125 million swap with a maturity of January 2017 under which it receives 7.375% (to match the bond coupon) and pays the higher of six-month sterling LIBOR plus 4.52% or six-month US$ LIBOR plus 3.72%, set in arrears with a cap on payment of 10%.

All forward foreign exchange contracts hedge underlying currency exposures.

4.4 Net financing costs

This section details the interest income generated on the Group's financial assets and the interest expense incurred on its borrowings and other financial assets and liabilities. In reporting its 'adjusted profits', the Group adjusts financing costs for mark-to-market movements on swaps and foreign exchange, imputed pension interest and other financing costs when assessing the net financing costs. The rationale for adjustments made to financing costs is provided in the Financial and performance review.

Accounting policies

Net financing costs comprise interest income on funds invested, gains/losses on the disposal of financial instruments, changes in the fair value of financial instruments, interest expense on borrowings and finance leases, unwinding of the discount on provisions, foreign exchange gains/losses and implied interest on pension assets and liabilities. Interest income and expense is recognised as it accrues in profit or loss, using the effective interest method.

Net financing costs

Net financing costs can be analysed as follows:

	2010 £m	2009 £m
Financing income:		
Interest income	**26**	23
Expected return on defined benefit pension scheme assets	**136**	128
Gain on bond exchange	**–**	14
Change in fair value of instruments classified at fair value through profit or loss	**11**	–
Foreign exchange gain	**12**	36
	185	201
Financing costs:		
Interest expense on financial liabilities measured at amortised cost	**(93)**	(93)
Interest on defined benefit pension scheme obligations	**(149)**	(143)
Losses on early settlement	**(10)**	(8)
Change in fair value of instruments classified at fair value through profit or loss	**–**	(37)
Other interest expense	**(8)**	(11)
	(260)	(292)
Net financing costs	**(75)**	(91)

The foreign exchange gain relates principally to Euro denominated bonds that are economically hedged by cross currency interest rate swaps.

4.5 Financial risk factors

The Group's activities expose it to a variety of financial risks: market risks (including currency risk, price risk and interest rate risk), credit risk and liquidity risk. The Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group's financial performance. The Group uses derivative financial instruments to minimise certain risk exposures.

Treasury policies have been approved by the Board for managing each of these risks including levels of authority on the type and use of financial instruments. Transactions are only undertaken if they relate to underlying exposures. The treasury function reports regularly to the Audit Committee and treasury operations are subject to periodic reviews.

Market risk

a) Currency risk

The Group operates internationally and is therefore exposed to currency risk arising from movements in foreign exchange rates, primarily with respect to the US dollar and the Euro. Foreign exchange risk arises from: differences in the dates commercial transactions are entered into and the date they are settled; recognised assets and liabilities; and, net investments in foreign operations.

The Group's foreign exchange policy is to hedge material foreign currency denominated costs at the time of commitment and to hedge a proportion of foreign currency denominated revenues on a rolling 12-month basis unless a natural hedge exists.

The Group ensures that its net exposure to foreign denominated cash balances is kept to an acceptable level by buying or selling foreign currencies at spot rates when necessary to address short-term imbalances.

The Euro denominated interest and principal payments under the €54 million and €188 million bonds have been fully hedged by cross-currency interest rate swaps.

The Group's investments in subsidiaries are not hedged as those currency positions are considered to be long term in nature.

At 31 December 2010, if sterling had weakened/strengthened by 10% against the US dollar with all other variables held constant, post-tax profit for the year would have been £2 million (2009: £2 million) higher/lower. Equity would have been £13 million (2009: £13 million) higher/lower.

At 31 December 2010, if sterling had weakened/strengthened by 10% against the Euro with all other variables held constant, post-tax profit for the year would have been £3 million (2009: £3 million) higher/lower. Equity would have been £2 million (2009: £2 million) higher/lower.

b) Price risk

The Group is not exposed to any material price risk.

c) Interest rate risk

Interest rate risk is the risk that the Group is impacted by significant changes in interest rates. Borrowings issued at or swapped to floating rates expose the Group to interest rate risk.

The Group's interest rate policy is to have between 40% and 60% of its borrowings held at fixed rates over the medium term in order to provide a balance between certainty of cost and benefit from lower floating rates. The Group uses interest rate swaps and options in order to achieve the desired mix between fixed and floating rates.

All of the Group's interest rate swaps are classified as fair value through profit or loss so any movement in the fair value goes through the income statement rather than equity.

At 31 December 2010, if interest rates had increased/decreased by 0.1%, post-tax profit for the year would have been £2 million (2009: £1 million) lower/higher.

Credit risk

Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations. It arises principally from the Group's receivables from customers, cash and held to maturity investments. There is also credit risk relating to the Group's own credit rating as this impacts the availability and cost of future finance.

a) Trade and other receivables

The Group's exposure to credit risk is influenced mainly by the individual characteristics of each customer. The majority of trade receivables relate to airtime sales contracts with advertising agencies and advertisers. Credit insurance has been taken out against these companies to minimise the impact on the Group in the event of a possible default.

b) Cash and held to maturity investments

The Group operates strict investment guidelines with respect to surplus cash and the emphasis is on preservation of capital. Counterparty limits for cash deposits are largely based upon long-term ratings published by the major credit rating agencies and perceived state support. Deposits longer than six months require the approval of the General Purpose Committee.

c) Borrowings

ITV's credit ratings with Standard & Poor's and Moody's Investor Service are B+/Ba3 respectively and are 'sub-investment grade' with both agencies. The combination of ITV's lower credit rating and the deterioration in credit conditions adversely impacts the availability and costs of future finance.

Liquidity risk

Liquidity risk is the risk that the Group will not be able to meet its financial obligations as they fall due. The Group's financing policy is to fund itself for the long term by using debt instruments with a range of maturities. It is substantially funded from the UK and European capital markets and it has a bilateral bank facility.

Management monitors rolling forecasts of the Group's liquidity reserve (comprising undrawn bank facilities and cash and cash equivalents) on the basis of expected cash flows. This monitoring includes financial ratios to assess possible future credit ratings and headroom and takes into account the accessibility of cash and cash equivalents.

At 31 December 2010 the Group has available £125 million (2009: £75 million) of undrawn committed facilities. The £125 million facility is provided by one bank and is secured on advertising receivables. The facility has no financial covenants and matures in September 2015. The facility was renewed during the year resulting in the increased size and longer maturity.

The table below analyses the Group's financial liabilities and derivative financial liabilities into relevant maturity groupings based on the period remaining until the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows (including interest), so will not always reconcile with the amounts disclosed on the statement of financial position:

At 31 December 2010	Total contractual cash flows £m	Less than 1 year £m	Between 1 and 2 years £m	Between 2 and 5 years £m	Over 5 years £m
Non-derivative financial liabilities					
Borrowings	**(1,812)**	**(138)**	**(90)**	**(899)**	**(685)**
Held to maturity investments	**231**	**11**	**11**	**33**	**176**
Trade and other payables	**(698)**	**(672)**	**(22)**	**(4)**	**–**
Other payables – non current	**(3)**	**–**	**(3)**	**–**	**–**
Derivative financial instruments					
Interest rate swaps	**142**	**74**	**9**	**50**	**9**
Forward foreign exchange contracts – fair value through profit or loss					
Outflows	**(13)**	**(13)**	**–**	**–**	**–**
Inflows	**14**	**14**	**–**	**–**	**–**
	(2,139)	**(724)**	**(95)**	**(820)**	**(500)**

At 31 December 2009	Total contractual cash flows £m	Less than 1 year £m	Between 1 and 2 years £m	Between 2 and 5 years £m	Over 5 years £m
Non-derivative financial liabilities					
Borrowings	(2,167)	(108)	(215)	(639)	(1,205)
Held to maturity investments	288	15	15	45	213
Trade and other payables	(677)	(646)	(23)	(8)	–
Other payables – non current	(12)	–	(10)	(2)	–
Derivative financial instruments					
Interest rate swaps	165	13	79	64	9
Forward foreign exchange contracts – fair value through profit or loss					
Outflows	(77)	(61)	(16)	–	–
Inflows	77	61	16	–	–
	(2,403)	(726)	(154)	(540)	(983)

Held to maturity investments are included within the table above because the £138 million March 2019 gilts are used as security against the £200 million 2019 loan, and the net repayment in 2019 is £62 million.

4.6 Fair value hierarchy

The financial instruments included on the ITV statement of financial position are measured at either fair value or amortised cost. The measurement of this fair value can in some cases be subjective, and can depend on the inputs used in the calculations. ITV generally uses external valuations using market inputs or market values (e.g. external share prices) and does not calculate its own fair values. The different valuation methods are called 'hierarchies' and are described below.

Fair value hierarchy for instruments measured at fair value

The table below sets out the financial instruments included on the ITV statement of financial position at 'fair value'.

Assets measured at fair value	Fair value 31 December 2010 £m	Level 1 31 December 2010 £m	Level 2 31 December 2010 £m	Level 3 31 December 2010 £m
Available for sale financial instruments				
STV shares	**1**	**1**	**–**	**–**
Available for sale gilts	**36**	**36**	**–**	**–**
Financial assets at fair value through profit or loss				
Interest rate swaps	**158**	**–**	**158**	**–**
Total	**195**	**37**	**158**	**–**

Liabilities measured at fair value	Fair value 31 December 2010 £m	Level 1 31 December 2010 £m	Level 2 31 December 2010 £m	Level 3 31 December 2010 £m
Financial liabilities at fair value through profit or loss				
Interest rate swaps	**(42)**	**–**	**(42)**	**–**
Total	**(42)**	**–**	**(42)**	**–**

Assets measured at fair value	Fair value 31 December 2009 £m	Level 1 31 December 2009 £m	Level 2 31 December 2009 £m	Level 3 31 December 2009 £m
Available for sale financial instruments				
STV shares	1	1	–	–
Available for sale gilts	34	34	–	–
Financial assets at fair value through profit or loss				
Interest rate swaps	154	–	154	–
Forward foreign exchange contracts	2	–	2	–
Total	191	35	156	–

Liabilities measured at fair value	Fair value 31 December 2009 £m	Level 1 31 December 2009 £m	Level 2 31 December 2009 £m	Level 3 31 December 2009 £m
Financial liabilities at fair value through profit or loss				
Interest rate swaps	(33)	–	(33)	–
Forward foreign exchange contracts	(1)	–	(1)	–
Total	(34)	–	(34)	–

Level 1

Fair values measured using quoted prices (unadjusted) in active markets for identical assets or liabilities.

Level 2

Fair values measured using inputs, other than quoted prices included within Level 1 that are observable for the asset or liability either directly or indirectly.

Interest rate swaps and options are accounted for at their fair value based upon termination prices. Forward foreign exchange contracts are accounted for at the difference between the contract exchange rate and the quoted forward exchange rate at the reporting date.

Level 3

Fair values measured using inputs for the asset or liability that are not based on observable market data.

4.7 Equity

This section explains material movements recorded in shareholders equity that are not explained elsewhere in the financial statements. The movements in equity and the balance at 31 December 2010 are presented in the consolidated statement of changes in equity.

The Group utilises share award schemes as part of its employee remuneration packages. The various ITV Share based compensation schemes are explained in this section as they are accounted for through retained losses.

Accounting policies

Available for sale reserve

Available for sale assets are stated at fair value, with any resultant gain or loss recognised directly in the available for sale reserve in equity, unless the loss is a permanent impairment, when it is then recorded in the income statement.

Dividends

Dividends are recognised through equity on the earlier of their approval by the Company's shareholders or their payment.

Share-based compensation

The Group operates a number of share-based compensation schemes. The fair value of the equity instrument granted is measured at grant date and spread over the vesting period via a charge to the income statement with a corresponding increase in equity.

The fair value of the share options and awards is measured using either a Monte Carlo or Black-Scholes model, as appropriate, taking into account the terms and conditions of the individual scheme. Under these valuation methods, the share price for ITV plc is projected to the end of the performance period as is the Total Shareholder Return for ITV plc and the companies in the comparator groups. Based on these projections, the number of awards that will vest and their present value is determined.

The valuation of these share-based payments also requires estimates to be made in respect of the number of options that are expected to be exercised.

Vesting conditions are limited to service conditions and performance conditions. Conditions other than service or performance conditions are considered non-vesting conditions. Non-market vesting conditions are included in assumptions about the number of options that are expected to vest. At each reporting date, the Group revises its estimates of the number of options that are expected to vest. It recognises the impact of the revision to original estimates, if any, in the income statement, with a corresponding adjustment to equity.

4.7.1 Share capital and share premium

The Group's share capital at 31 December 2010 of £389 million (2009: £389 million) and share premium of £120 million (2009: £120 million) is the same as that of ITV plc. Details of this are given in the ITV plc Company financial statements section of this annual report.

4.7.2 Merger and other reserves

Merger and other reserves at 31 December 2010 include merger reserves arising on the Granada/Carlton and previous mergers of £119 million (2009: £119 million), capital reserves of £112 million (2009: £112 million), capital redemption reserves of £36 million (2009: £36 million), revaluation reserves of £6 million (2009: £6 million) and £31 million (2009: £35 million) in respect of the equity element of the 2016 convertible bond.

4.7.3 Translation reserve

The translation reserve comprises all foreign exchange differences arising on the translation of the accounts of, and investments in, foreign operations.

4.7.4 Available for sale reserve

The available for sale reserve comprises all movements arising on the revaluation and disposal of assets accounted for as available for sale.

4.7.5 Retained losses

The retained losses reserve comprises of profit for the year attributable to owners of the company of £269 million (2009: £91 million) and other items recognised directly through equity as presented on the consolidated statement of changes in equity.

4.7.6 Non-controlling interests

In 2010 £1 million of profit was attributable to non-controlling interests.

The £7 million movement in 2009 was £3 million profit attributable to non-controlling interests, net of £2 million for dividends paid to such interests and £8 million in respect of the 25% non-controlling interest element in GMTV purchased in November 2009.

4.7.7 Share-based compensation

A transaction will be classed as a share-based transaction where the Group receives services from employees and pays for these in shares or similar equity instruments. If the Group incurs a liability whose amount is based on the price or value of the Group's shares then this will also fall under a share-based transaction.

The Group operates a number of share-based compensation schemes. A description of each type of share-based payment arrangement that existed at any time during the period, including the general terms and conditions of each arrangement, such as vesting requirements, the maximum term of options granted, and the method of settlement (e.g. whether in cash or equity) are set out in the Remuneration report .

Exercises of share options granted to employees can be satisfied by market purchase or issue of new shares. No new shares may be issued to satisfy exercises under the terms of the Deferred Share Award Plan. During the year all exercises were satisfied by using shares purchased in the market and held in the ITV Employees' Benefit Trust rather than by issuing new shares.

Share-based compensation charges totalled £8 million in 2010 (2009: £11 million).

The table below summarises the movements in the number of share options outstanding for the Group and their weighted average exercise price:

	2010 Number of options ('000)	2010 Weighted average exercise price (pence)	2009 Number of options ('000)	2009 Weighted average exercise price (pence)
Outstanding at 1 January	**101,989**	**63.94**	116,454	71.88
Granted during the year – nil priced	**25,792**	**–**	26,821	–
Granted during the year – other	**3,438**	**42.90**	13,498	28.60
Forfeited during the year	**(6,311)**	**21.63**	(12,794)	39.23
Exercised during the year	**(8,141)**	**1.79**	(8,772)	–
Expired during the year	**(39,465)**	**121.42**	(33,218)	52.19
Outstanding at 31 December	**77,302**	**22.32**	101,989	63.94
Exercisable at 31 December	**8,767**	**121.61**	33,694	160.42

For those options exercised in the year, the average share price during 2010 was 59.99 pence (2009: 38.37 pence).

Of the options still outstanding, the range of exercise prices and weighted average remaining contractual life of these options can be analysed as follows:

Range of exercise prices (pence)	2010 Weighted average exercise price (pence)	2010 Number of options ('000)	2010 Weighted average remaining contractual life (years)	2009 Weighted average exercise price (pence)	2009 Number of options ('000)	2009 Weighted average remaining contractual life (years)
Nil	**–**	**50,161**	**2.54**	–	47,851	3.23
20.00 – 49.99	**31.56**	**15,238**	**2.83**	28.60	13,326	3.71
50.00 – 69.99	**54.69**	**3,643**	**1.62**	55.40	5,377	2.58
70.00 – 99.99	**85.03**	**1,046**	**1.03**	84.75	1,462	1.99
100.00 – 109.99	**105.99**	**1,878**	**1.44**	101.90	11,321	1.04
110.00 – 119.99	**112.30**	**2,183**	**0.94**	114.14	6,787	4.22
120.00 – 149.99	**136.40**	**2,584**	**0.90**	137.33	3,401	1.87
200.00 – 249.99	**–**	**–**	**–**	217.78	1,035	0.98
250.00 – 299.99	**280.00**	**569**	**0.05**	270.09	11,337	0.54
300.00 – 385.99	**–**	**–**	**–**	385.31	91	0.40

Share schemes

Full details of the ITV share plans and awards can be found in the Remuneration report.

Awards made under the ITV Commitment Scheme, Granada Media and Granada Commitment schemes, the Granada Media, Granada and Carlton Executive Share Option schemes, the Carlton Equity Participation Plan, the Carlton Deferred Annual Bonus Plan and the Granada Save As You Earn (SAYE) have all reached the end of their various performance periods, and have vested or lapsed accordingly. Details of the performance criteria that applied to these awards have been detailed in the notes to previous financial statements, and in previous remuneration reports and have not been repeated in these financial statements on the grounds of relevance. The ITV SAYE scheme is an Inland Revenue Approved SAYE scheme. Although awards remain vested but unexercised under these Plans, they are not considered material for the purposes of disclosure in this note.

The awards made under the ITV Performance Share Plan and the ITV Turnaround Plan all have market based performance conditions that are taken into account in the fair value calculation using a Monte Carlo pricing model. The Black-Scholes model is used to value the SAYE Schemes as these do not have any market performance conditions.

Assumptions made relating to grants of share options during 2010 and 2009 are as follows:

Scheme name	Date of grant	Share price at grant (pence)	Exercise price (pence)	Expected volatility %	Expected life (years)	Gross dividend yield %	Risk free rate %	Fair value (pence)
Save As You Earn								
ITV – three year	17-Jul-09	35.00	28.60	53.00%	3.25	–	2.40%	17.00
ITV – five year	17-Jul-09	35.00	28.60	43.00%	5.25	–	3.10%	18.00
ITV – three year	01-Apr-10	62.95	42.90	56.00%	3.25	–	1.97%	21.45
ITV – five year	01-Apr-10	62.95	42.90	45.00%	5.25	–	2.89%	22.75
Performance Share Plan								
ITV – three year	01-Jun-09	40.00	–	53.00%	3.00	–	2.10%	30.20
ITV – three year	26-Mar-10	58.70	–	56.00%	3.00	–	1.88%	39.55
ITV – three year	03-Aug-10	51.60	–	57.00%	3.00	–	1.42%	34.15
Nil-Cost Options award under deed								
ITV – three year	26-Apr-10	69.40	–	56.00%	3.00	–	2.00%	50.35

The expected volatility for awards made in 2010 reflects the historic volatility of ITV plc's share price and equity markets as a whole over the preceding three or five years, and depending on the expected life of the award, prior to the grant date of the share options awarded.

Employees' Benefit Trust

The Group has investments in its own shares as a result of shares purchased by the ITV Employees' Benefit Trust ('EBT'). Transactions with the Group-sponsored EBT are included in these financial statements. In particular, the EBT's purchases of shares in ITV plc are debited directly to equity.

The table below shows the number of ITV plc shares held in the trust at 31 December 2010 and the purchases/(releases) from the EBT made in the year to satisfy awards under the Group's share schemes.

Shares held at:	Number of shares (released)/purchased	Nominal value £	Scheme
1 January 2010	3,528,761	352,876	
	(6,776,765)	(677,677)	ITV Deferred Share Award Plan
	(984,401)	(98,440)	Granada Commitment Scheme
	(377,507)	(37,751)	ITV SAYE Scheme
	(113,406)	(11,340)	Employee Share Award
	7,037,274	703,727	Shares purchased
31 December 2010	**2,313,956**	**231,395**	

The total number of shares held by the EBT at 31 December 2010 represents 0.06% (2009: 0.09%) of ITV's issued share capital. The market value of own shares held is £2 million (2009: £2 million).

The shares will be held in the EBT until such time as they may be transferred to participants of the various Group share schemes. Rights to dividends have been waived by the EBT in respect of shares held which do not relate to restricted shares under the Deferred Share Award Plan. In accordance with the Trust Deed, the Trustees of the EBT have the power to exercise all voting rights in relation to any investment (including shares) held within that trust.

5.1 Related party transactions

The related parties identified by the directors include joint ventures, associated undertakings, investments and key management personnel.

To enable users of our financial statements to form a view about the effects of related party relationships on the Group, we disclose the related party relationship when control exists, irrespective of whether there have been transactions between the related parties.

Related party transactions

Transactions with joint ventures and associated undertakings

Transactions with joint ventures and associated undertakings during the year were:

	2010 £m	2009 £m
Sales to joint ventures	**13**	4
Sales to associated undertakings	**2**	2
Purchases from joint ventures	**21**	13
Purchases from associated undertakings	**50**	46

The transactions with joint ventures primarily relate to sales and purchases of digital multiplex services with Digital 3&4 Limited.

The purchases from associated undertakings relate to the purchase of news services from ITN. All transactions with associated undertakings and joint ventures arise in the normal course of business on an arm's-length basis. None of the balances are secured.

The amounts owed by and to these related parties at the year-end were:

	2010 £m	2009 £m
Amounts owed by joint ventures	**1**	25
Amounts owed by associated undertakings	**8**	4
Amounts owed by pension scheme	**1**	1
Amounts owed to joint ventures	**1**	1
Amounts owed to associated undertakings	**–**	1

Amounts paid to the Group's retirement benefit plans are set out in note 3.6. During the year the Group and the Trustee of the main section of the ITV Pension Scheme concluded a partnership, backed by SDN. The full details of this arrangement are set out in note 3.6 and the Financial and performance review.

Transactions with key management personnel

Key management consists of ITV plc executive and non-executive directors and the ITV management board. Key management personnel compensation is as follows:

	2010 £m	2009 £m
Short-term employee benefits	**8**	10
Post-employment benefits	**1**	1
Termination benefits	**2**	2
Share-based compensation	**4**	5
	15	18

Section 5 Other notes

Principal joint ventures, associated undertakings and investments

The Company indirectly held at 31 December 2010 the following holdings in significant joint ventures, associated undertakings and investments:

Name	Note	Interest in ordinary share capital 2010 %	Interest in ordinary share capital 2009 %	Principal activity
Crackit Productions Limited	a	25.00	25.00	Production of television programmes
Freesat (UK) Limited	b	50.00	50.00	Provision of a standard and high definition enabled digital satellite proposition
Independent Television News Limited	a	40.00	40.00	Supply of news services to broadcasters in the UK and elsewhere
ISAN UK Limited	a	25.00	25.00	Operates voluntary numbering system for the identification of audiovisual works
Mammoth Screen Limited	a	25.00	25.00	Production of television programmes
Screenvision Holdings (Europe) Limited(1)	b	50.00	50.00	European cinema advertising
STV Group plc(2)	c	6.91	7.36	Television broadcasting in central and north Scotland
Digital 3&4 Limited	b	50.00	50.00	Operates the Channel 3 and 4 digital terrestrial multiplex
YouView TV Limited	b	14.30	–	Internet connected television platform

(1) Classified as an Asset Held for Sale.
(2) Incorporated and registered in Scotland.

a Associated undertaking.
b Joint venture.
c Available for sale financial asset.

5.2 Contingent liabilities

A contingent liability is a liability that is not sufficiently certain to qualify for recognition as a provision where uncertainty may exist regarding the outcome of future events.

There has been a disagreement between the Group, STV Group plc and the two licence holding subsidiaries, STV Central and STV North, as to the amounts of money due and payable to the Group. A legal claim, based upon the balances outstanding at 30 April 2009, for approximately £38 million in respect of outstanding invoices, was filed on 22 September 2009 and Particulars of Claim were served on 24 September 2009. Since then STV has admitted over £37 million in full satisfaction of the Group's claim.

The Group recognises that certain amounts are due to STV and these and other amounts are the subject of a counterclaim served by STV on 13 November 2009. Prior to the litigation, the Group and STV have come to an arrangement whereby amounts owed to each other will be set off, although until the current litigation is resolved, that amount cannot be accurately identified. For the period after 30 April 2009, the Group and STV have agreed to operate a monthly payment on account scheme so that the operations may continue effectively.

In a separate action STV Central and STV North issued proceedings on 16 November 2009 against ITV Network and other Group companies in relation to the exploitation of new media rights in the UK. Through the proceedings STV Central and STV North seek an injunction to prevent the ITV Network from entering into any UK wide deals involving new media rights and seek declarations in relation to how the rights are owned and may be exploited. The Group rejects this claim and intends to defend it robustly. No provision has been made in these financial statements for this claim.

On 24 February 2010, STV issued a letter alleging that the Group has acted with unfair prejudice against the interests of STV and that ITV Network is in breach of its fiduciary duties to STV. ITV Network rejects these allegations and will vigorously defend any claim that is brought.

There are other contingent liabilities in respect of certain litigation and guarantees, and in respect of warranties given in connection with certain disposals of businesses. None of these items are expected to have a material affect on the Group's results or financial position.

5.3 Subsequent events

Where the Group receives information in the period between 31 December 2010 and the date of this report about conditions related to certain events that existed at the year-end, we update our disclosures that relate to those conditions in the light of the new information. Such events can be categorised as adjusting or non-adjusting depending on whether the condition existed in 2010. If non-adjusting events after the year-end are material, non-disclosure could influence the economic decisions that users make on the basis of the financial statements.

Accordingly, for each material category of non-adjusting event after the reporting period we disclose in this section the nature of the event and an estimate of its financial effect, or a statement that such an estimate cannot be made.

There are no subsequent events.

ITV plc Company Financial Statements

Company balance sheet

At 31 December:	Note	2010 £m	2010 £m	2009 £m	2009 £m
Fixed assets:					
Investments in subsidiary undertakings	iii		**1,646**		1,671
Held to maturity investments			**148**		149
Derivative financial instruments			**89**		151
			1,883		1,971
Current assets:					
Amounts owed by subsidiary undertakings		**9**		173	
Derivative financial instruments		**67**		–	
Cash at bank and in hand and short-term deposits		**33**		146	
		109		319	
Creditors – amounts falling due within one year:					
Borrowings	iv	**(47)**		–	
Amounts owed to subsidiary undertakings		**(111)**		(173)	
Accruals and deferred income		**(16)**		(21)	
		(174)		(194)	
Net current (liabilities)/assets			**(65)**		125
Total assets less current liabilities			**1,818**		2,096
Creditors – amounts falling due after more than one year:					
Borrowings	iv		**(1,171)**		(1,366)
Derivative financial instruments			**(39)**		(29)
			(1,210)		(1,395)
Net assets			**608**		701
Capital and reserves:					
Called up share capital	v		**389**		389
Share premium	vi		**120**		120
Other reserves	vi		**67**		71
Profit and loss account	vi		**32**		121
Shareholders' funds – equity			**608**		701

The accounts were approved by the Board of directors on • March 2011 and were signed on its behalf by:

Ian Griffiths
Director

Notes to the ITV plc Company Financial Statements

i Accounting policies

Basis of preparation

These accounts have been prepared in accordance with UK Generally Accepted Accounting Practice (UK GAAP).

As permitted by section 408 (3) of the Companies Act 2006, a separate profit and loss account, dealing with the results of the parent company, has not been presented.

Under FRS 29 the Company is exempt from the requirement to provide its own financial instruments disclosures, on the grounds that it is included in publicly available consolidated financial statements which include disclosures that comply with the IFRS equivalent to that standard.

Subsidiaries

Subsidiaries are entities that are directly or indirectly controlled by the Company. Control exists where the Company has the power to govern the financial and operating policies of the entity so as to obtain benefits from its activities. The investment in the Company's subsidiaries is recorded at cost, adjusted for the effect of the adoption of UITF 41. Annual FRS 20 share-based payment compensation costs are recharged to the subsidiaries through the profit and loss account.

Foreign currency transactions

Transactions in foreign currencies are translated into sterling at the rate of exchange ruling at the date of the transaction. Foreign currency monetary assets and liabilities at the balance sheet date are translated into sterling at the rate of exchange ruling at that date. Foreign exchange differences arising on translation are recognised in the profit and loss account. Non-monetary assets and liabilities measured at historical cost are translated into sterling at the rate of exchange on the date of the transaction.

Borrowings

Borrowings are recognised initially at fair value including directly attributable transaction costs, with subsequent measurement at amortised cost using the effective interest rate method. The difference between initial fair value and the redemption value is recorded in the profit and loss account over the period of the liability on an effective interest basis.

Derivatives and other financial instruments

The Company uses a limited number of derivative financial instruments to hedge its exposure to fluctuations in interest and other foreign exchange rates. The Company does not hold or issue derivative instruments for speculative purposes.

Derivative financial instruments are initially recognised at fair value and are subsequently remeasured at fair value with the movement recorded in the profit and loss account within net financing costs. Derivatives with a positive fair value are recorded as assets and negative fair values as liabilities.

The fair value of foreign currency forward contracts is determined by using the difference between the contract exchange rate and the quoted forward exchange rate at the balance sheet date. The fair value of interest rate swaps is the estimated amount that the Company would receive or pay to terminate the swap at the balance sheet date, taking into account current interest rates and the current creditworthiness of swap counterparties.

Third party valuations are used to fair value the Company's derivatives. The valuation techniques use inputs such as interest rate yield curves and currency prices/yields, volatilities of underlying instruments and correlations between inputs.

Where a derivative financial instrument is designated as a hedge of the variability in cash flows of a recognised asset or liability, or a highly probable forecast transaction, the effective part of any gain or loss on the derivative financial instrument is recognised directly in equity. Any ineffective portion of the hedge is recognised immediately in the profit and loss account.

For financial assets and liabilities classified at fair value through profit or loss the fair value change and interest income/expense are not separated.

Dividends

Dividends are recognised through equity on the earlier of their approval by the Company's shareholders or their payment.

ii Employees

Four (2009: four) directors of ITV plc were employees of the Company during the year, two of which remain at year end. The costs relating to these directors are disclosed in the Remuneration report.

iii Investments in subsidiary undertakings

The principal subsidiary undertakings are listed in note ix. The movements during 2010 were as follows:

	£m
At 1 January 2010	1,671
Disposal of Friends Reunited	(25)
At 31 December 2010	**1,646**

The Company disposed of its 100% interest in Friends Reunited Holdings Limited on 25 March 2010 to Brightsolid Online Innovation Limited (a wholly owned subsidiary of D.C. Thompson Limited) for a cash consideration of £27 million. The sale resulted in no material gain or loss on disposal in 2010.

iv Borrowings

Current loans and loan notes due within one year

Loans repayable in one year or less as at 31 December 2010 comprise an unsecured €54 million Eurobond (£47 million) which has a coupon of 6.0% and matures in October 2011.

Loan repayable after more than one year

Loans repayable after more than one year as at 31 December 2010 includes an unsecured £110 million Eurobond which has a coupon of three-month sterling LIBOR plus 2.7% and matures in March 2013, an unsecured €188 million Eurobond (£126 million net of cross currency swaps) which has a coupon of 10.0% and matures in June 2014 and an unsecured £383 million Eurobond which has a coupon of 5.375% and matures in October 2015. Maturing in November 2016 is an unsecured £135 million convertible Eurobond which has a coupon of 4.0%. An unsecured £250 million Eurobond which has a coupon of 7.375% and matures in January 2017 and an unsecured bank loan for £200 million which has a coupon of 6.75% until March 2012 and a variable rate thereafter which matures in March 2019.

v Called up share capital

	Authorised		Allotted, issued and fully paid	
	2010 £m	2009 £m	**2010 £m**	2009 £m
Ordinary shares of 10 pence each				
Authorised:				
8,000,000,000 (2009: 8,000,000,000)	**800**	800		
Allotted, issued and fully paid:				
3,889,129,751 (2009: 3,889,129,751)			**389**	389
Total	**800**	800	**389**	389

The Company's ordinary shares give shareholders equal rights to vote, receive dividends and to the repayment of capital. There have been no issued ordinary share capital movements during the period.

vi Reconciliation of movements in shareholders' funds

	Share capital £m	Share premium £m	Other reserves £m	Profit and loss account £m	Total £m
At 1 January 2010	389	120	71	121	701
Retained loss for year for equity shareholders	–	–	–	(101)	(101)
Share-based compensation	–	–	–	8	8
Equity portion of the convertible bond	–	–	(4)	4	–
At 31 December 2010	**389**	**120**	**67**	**32**	**608**

The loss after tax for the year dealt with in the accounts of ITV plc is £101 million (year ended 31 December 2009: profit of £67 million).

On 17 February 2011 the Company received a dividend of £75 million from its subsidiary Carlton Communications Limited, resulting in an increase in profit and loss reserves.

vii Contingent liabilities

Under a group registration, the Company is jointly and severally liable for VAT at 31 December 2010 of £39 million (31 December 2009: £25 million). The Company has guaranteed certain finance and operating lease obligations of subsidiary undertakings.

There are contingent liabilities in respect of certain litigation and guarantees and in respect of warranties given in connection with certain disposals of businesses and in respect of certain trading and other obligations of certain subsidiaries.

Where the Company enters into financial guarantee contracts to guarantee the indebtedness of other companies within its Group, the Company considers these to be insurance arrangements, and accounts for them as such. In this respect, the Company treats the guarantee contract as a contingent liability until such time as it becomes probable that the Company will be required to make a payment under the guarantee.

viii Capital and other commitments

There are no capital commitments at 31 December 2010 (2009: none).

ix Related party transactions

Transactions with key management personnel

Key management consists of ITV plc executive directors. Key management personnel compensation is as follows:

	2010 £m	2009 £m
Short-term employee benefits	**3**	5
Termination benefits	**1**	–
Share-based compensation	**2**	3
	6	8

x Principal subsidiary undertakings and investments

Principal subsidiary undertakings

The principal subsidiary undertakings of the Company at 31 December 2010, all of which are wholly-owned (directly or indirectly) and incorporated and registered in England and Wales except where stated, are:

Name	Principal activity
12 Yard Productions (Investments) Limited	Production of television programmes
3sixtymedia Limited(1)	Supplier of facilities for television productions
Carlton Communications Limited	Holding company
ITV Breakfast Limited (previously GMTV Limited)	Production and broadcast of breakfast time television under national Channel 3 licence
Granada Limited	Holding company
Granada Ventures Limited	Production and distribution of video and DVD products
ITV Broadcasting Limited	Broadcast of television programmes
ITV Consumer Limited	Development of platforms, broadband, transactional and mobile services
ITV Digital Channels Limited	Operation of digital television channels
ITV Global Entertainment Limited	Rights ownership and distribution of television programmes and films
ITV Network Limited(2)	Scheduling and commissioning television programmes
ITV Services Limited	Provision of services for other companies within the Group
ITV Studios Limited	Production of television programmes
ITV2 Limited	Operation of digital television channels
SDN Limited	Operation of Freeview Multiplex A
Granada Media Australia Pty Limited(3)	Production of television programmes
Granada Produktion für Film und Fernsehen GmbH(4)	Production of television programmes
Imago TV Film und Fernsehproduktion GmbH(4, 5)	Production of television programmes
ITV Global Entertainment, Inc(6)	Distribution of television programmes
ITV Studios, Inc. (formerly Granada Entertainment USA)(6)	Production of television programmes
ITV Scottish Limited Partnership(7)	Holding company

(1) 80% owned.
(2) Interest in company limited by guarantee.
(3) Incorporated and registered in Australia.
(4) Incorporated and registered in Germany.
(5) 67.72% owned.
(6) Incorporated and registered in the USA.
(7) 99.9% owned SPE partnership with the remaining interest held by the ITV pension scheme. Fully consolidated in the Group accounts. Incorporated and registered in Scotland holding the ownership interest in SDN. The Group has taken advantage of the exemption conferred by Regulation 7 of the Partnership (Accounts) Regulations 2008 and has, therefore, not appended the accounts of this qualifying partnership to these accounts. Separate accounts for the partnership are not required to be, and have not been, filed at Companies House.

A list of all subsidiary undertakings will be included in the Company's annual return to Companies House.

Principal joint ventures, associated undertakings and investments

The Company indirectly held at 31 December 2010 the following holdings in significant joint ventures, associated undertakings and investments:

Name	Note	**Interest in ordinary share capital 2010 %**	Interest in ordinary share capital 2009 %	Principal activity
Crackit Productions Limited	a	**25.00**	25.00	Production of television programmes
Freesat (UK) Limited	b	**50.00**	50.00	Provision of a standard and high definition enabled digital satellite proposition
Independent Television News Limited	a	**40.00**	40.00	Supply of news services to broadcasters in the UK and elsewhere
ISAN UK Limited	a	**25.00**	25.00	Operates voluntary numbering system for the identification of audiovisual works
Mammoth Screen Limited	a	**25.00**	25.00	Production of television programmes
Screenvision Holdings (Europe) Limited(1)	b	**50.00**	50.00	European cinema advertising
STV Group plc(2)	c	**6.91**	7.36	Television broadcasting in central and north Scotland
Digital 3&4 Limited	b	**50.00**	50.00	Operates the Channel 3 and 4 digital terrestrial multiplex
YouView TV Limited	b	**14.30**	–	Internet connected television platform

(1) Classified as an Asset Held for Sale.
(2) Incorporated and registered in Scotland.

a Associated undertaking.
b Joint venture.
c Available for sale financial asset.

xi Post balance sheet events

There are no post balance sheet events.